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Progress in The Middle East

THE MIDDLE EAST: PRESSURES WITHIN AND WITHOUT

Benjamin Shwadran 257

OIL IN THE MIDDLE EAST George Lenczowski 262

OPERATION BOOTSTRAP IN THE UNITED ARAB REPUBLIC

Halford L. Hoskins 268

ECONOMIC REALITIES IN ISRAEL Dwight J. Simpson 273

POLITICAL AND ECONOMIC BALANCE IN IRAN . . Robert J. Pranger 278

TECHNICAL AND ECONOMIC AID TO THE MIDDLE EAST

John Lindberg 285

RECEIVED AT OUR DESK 290

CURRENT DOCUMENTS

United States-Japanese Security Treaty, 1960 293

THE MONTH IN REVIEW 309

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Assistant Editor:
JOAN L. BARKON

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Current History

Vol. 38

MAY, 1960

No. 225

Our May issue brings into focus the problems faced by Middle Eastern states in their internal development and their relations with one another, as well as their influence in the cold war. Our introductory article presents a balance sheet summary of tensions within the Arab bloc, exploring East-West competition for influence and control. This long-time specialist in Middle Eastern problems sizes up the situation succinctly; while Western aims in the area ". . . are clear enough, the policies to achieve them have not been successfully formulated or applied." On the other hand, "the policies adopted by the Soviet leaders followed the lines of their objectives: to bribe the Arabs with anti-Western acts; to give them economic, military and technical aid; to assume pro-Arab positions in the international arena; and to fish in the muddled waters of inter-Arab conflict."

The Middle East: Pressures Within and Without

By BENJAMIN SHWADRAN
Editor, Middle Eastern Affairs

IN ITS present composition the Middle East consists of three political sections: the Arab states, the non-Arab Muslim states, and Israel. For a number of reasons the last-named has developed strong internal stability and a very efficient military establishment geared to defensive needs. Israel is not formally aligned with any world grouping, but because of the general ideological orientation of her people, and because of practical dictates, she is, for all intents and purposes, in the Western camp.

The two non-Arab Muslim states—Turkey and Iran—with territories bordering on the Soviet Union, are exposed to Soviet pressure. They indicated their identification with the West when they joined the Bagdad Pact, and after Iraq left the Pact, they remained members in the Central Treaty Organization. Both these instruments were aimed at preventing Soviet aggression or penetration into

the Middle East as a whole, and into Turkey and Iran in particular. These two countries have received considerable military and economic aid from the United States and have displayed—although in varying degrees—a determination to resist Communist pressure.

Turkey has a much stronger military potential, receives a greater measure of United States assistance and, in the eyes of Western military authorities, has a much greater resistance power than Iran. These two non-Arab Muslim countries were subjected during the post-World War II period to Soviet pressures and threats, but they succeeded with the active support of the Western powers, especially the United States, in withstanding them. The Turks showed a greater willingness and readiness to oppose any attempt to infringe on their rights than did the Iranians.

Turkey and, perhaps to a lesser extent, Iran have demonstrated, in the last 15 years,

a much greater measure of internal social stability and political continuity than have their Arab neighbors. While it would be difficult, if not impossible, to assess the real effectiveness of the military forces of Turkey and Iran in case of an actual East-West conflict (and in view of modern nuclear and missile weapons some military observers question the usefulness of the military establishments of these two countries), their alignment with the Western camp makes them projected shields—as weakened by distance as they may be—of the West in its struggle against communism.

The real issue in the Middle East is the bulk of the Arab states. Except for the absolutist regimes in Yemen and in the relatively new state of Saudi Arabia, the Arabs lacked a tradition of self-government; they lacked experience in public responsibility, and above all, the self-discipline necessary for the effective functioning of any collective organization. For hundreds of years the Arabs were subject to rulers who, though they were of the same religion, were not of their people and their culture; the Arabs did not share in the authority or responsibility of the government. After World War I they were exposed to Western influences which ultimately led, in the aftermath of World War II, to full independence. The newly emerged Arab states found themselves in the world arena of sovereign nations without the experience necessary for the arduous task of governing.

The impact of Western technology and ideological slogans, neither of which was rooted in the tradition and experience of the Arab Middle Eastern peoples, combined with social restlessness and economic changes to create the difficulties which have plagued the region in the last 15 years. The younger generation, realizing the general backward stage of development of their countries and recalling the years of foreign Western rule, found Western imperialism a ready-made target for their attacks and the excuse for all the ills that beset their countries. Western imperialism became not only the enemy to be fought and ousted from the region, but also the very reason for the backwardness and suffering, both in the past and the present, of the countries and peoples of the area.

Basically, the Middle Eastern Arab countries have faced and are facing three major

ills: social disturbances, economic backwardness and political instability. These have been aggravated by the rapid changes which have taken place in the region as a result of two world wars and developments in the last 15 years.

Primary Difficulties

The primary economic resource of the area—agriculture—is suffering from an antiquated and backward land regime, from very primitive methods of cultivation and from its disproportionate role in the economic structure of the region. While industrialization is considered an indispensable element in the structure of the newly formed states, it is not fully realized that it must come about as the outgrowth of the natural conditions of the area, that it must be integrated in the entire complex of the general development, and that it requires tremendous financial resources and technological knowledge and skill.

The Arab Middle East is in a social upheaval. The old-established patterns are crumbling, primarily as the result of the impact of Western ideas and practices, the development of the oil industry, and other economic and educational innovations. Since these did not come about from internal change, the old patterns were not replaced by new indigenous patterns, and deep social disturbances were inevitable. The old fatalistic attitude of resignation to the divine will, the unquestioned acceptance of the existing order of things as ordained by God have begun to be seriously challenged, and as a consequence the power of the established authority has been disastrously shaken. However, since the overwhelming majority of the people are still illiterate and uneducated, the stirring of the masses has not yet been consolidated into a positive, constructive course.

The new Arab governmental administrations were based on a democratic façade inherited from the pseudo-democratic design developed by the mandatary or protecting powers, a design imposed from the outside, but one which enabled unscrupulous native political leaders and rulers to exploit their positions for selfish ends. The system was bound to break down. It failed in Syria, in Egypt, in Lebanon, Jordan and Iraq.

If the Arabs had been left to themselves, the process of adjusting to the new condi-

tions, eliminating old practices and developing new ones—though it would perhaps in some instances have been painful and very costly—would have taken place in a fashion typical of the Eastern tradition, and in time the Middle Eastern Arab countries would have become integrated in the community of nations. Unfortunately, world tensions made these countries the victims of the East-West struggle of the Great Powers.

The establishment of the State of Israel in a part of what was formerly Palestine, an area the Arabs considered their territory, was a severe setback to Arab hopes and aspirations. The defeat of their effort to frustrate the emergence of the Jewish state deeply wounded their pride and became a seriously disturbing factor in an already agitated situation. But in this as in the other difficulties, had it not been for the Great Powers' interference, the Arabs would in time have adjusted themselves to the realities and worked out a modus vivendi with the Jews for the good and welfare of the entire region.

Had the Western Powers told the newly emergent Arab nations what their real difficulties were, and had they offered to assist them, on an honest basis, the Arabs might have accepted the offer and worked with the West towards stability and prosperity. Or they might have rejected the offer, preferring to work out their destiny in their own way. In either case, new tensions would not have been generated. Instead, the Western Powers began to woo the Arab countries into military alignments. In their desire to enlist the newly formed Arab states in the battle against communism—a danger which the Arab states were incapable of appreciating—they made offers which could not but arouse the suspicion of the new Arab leaders. This, and the bargaining procedures, could have led only to the acceptance of Moscow's offers, which were not only more attractive, but which came from a government that had no imperialist past in the area. Issues, proposals and difficulties were not considered on their merits, but in terms of the East-West conflict. Thus, development plans, industrialization, financing, loans, the Israeli issue, Arab refugees and every other problem that faced the region were not considered by either the world blocs or the Arabs themselves as matters to be attacked on their intrinsic

merit, but from the viewpoint of the struggle between the Western democracies and communism.

Internal Arab Struggle

It is in this context that we must also view the internal Arab struggle, which is at the moment assuming the form of Iraq vs. the U.A.R., or Gamal Abdel Nasser vs. Abdel Karim Kassim. The "Free Officers" revolution in Egypt, which was headed by Muhammad Naguib and Nasser, was primarily an internal revolt against the corrupt practices of the regime of King Farouk and the various political parties which, according to the young army officers, were not concerned with the welfare of the Egyptians. The revolutionaries were determined to establish a new order, devoted to the rehabilitation of their country, and to avoid involvement in affairs that did not concern them. First Naguib and afterwards Nasser were bent on social and economic reforms aimed at bringing greater prosperity and stability to Egypt. At this moment, the Western powers came forward with a regional military organization, which the Soviet Union counteracted with tempting economic and military offers.

Nasser found himself a central figure in the region, with international importance and significance, with the great world powers bidding for his favor. He soon abandoned the limited objective and began to aspire to political leadership of all the Arabs, if not all Muslims. This inevitably brought him closer to the Soviets, who for very obvious reasons encouraged him in his ambitions, and into a direct clash with Iraq, which in the meantime had joined the Bagdad Pact. Iraq became the Arab state representing the West, while Nasser became the major anti-Western power in the Middle East.

It was at this juncture that Arab nationalism began to play a new and expanded role. Now, it is agreed by all that Arab nationalism is the instrument which could rehabilitate the Arab world and help develop a stable, self-reliant and strong people whose inherent potentialities could be realized and who would participate fully in the affairs of the world. Arab nationalism would give the Arabs a sense of self-respect and self-confidence and enable them to bring prosperity to their lands and cultural revival to their

peoples. But what methods should be used to establish Arab nationalism?

Kassim believes that the way to Arab nationalism is from the bottom up. He has confidence in the lowly Arab, but first of all the Arab must attain a sense of local patriotism. Since Arab society has been based on fragmented loyalties and limited geographical knowledge, it is important to develop first a sense of unity of the smaller geographical entity, such as the existing political Arab states. The great task which lies ahead, according to Kassim, is to forge out of the various tribes, religious sects and antagonistic geographical groupings a united Iraqi nation. The same would be true of the other Arab countries. Only after a sense of responsibility and civic maturity has been developed, and a stable political regime, growing out of solid concrete reality with which the individual can identify himself, has been firmly established, could steps be taken towards a greater unity.

To be sure, every Arab is conscious of a greater Arab unity of which he is a part. But it is a remote, abstract notion, very pleasant to talk about, to wax poetic and romantic about, or even to become emotionally aroused over, but it is not real enough to affect him to the point of bringing about a sustained day-to-day responsibility. To impose the idea of an over-all unity from above, without nurturing it from the bottom up, would bring dictatorship, tyranny, chaos and disaster.

Nasser, on the other hand, believes that the only and quickest way to achieve Arab nationalism is to impose it from above, by force if necessary. The process advocated by Kassim is too slow and would take too long, and neither the Arabs nor he can afford the luxury of time. Moreover, Kassim presupposes that the average Arab has the basic ability to develop a sense of local patriotism, and that smaller units could develop the desired objective. He, Nasser, does not believe this, and he does not trust local Arab patriotism. Neither does he trust individual Arabs, nor does he trust the Arab masses. He is determined to impose the greatest Arab unity on the smallest unit of Arab consciousness.

The basic Western interest and objectives in the Middle East may be summarized as: strategic, since the area is still the focal point of three continents; a buffer if not a blockade against Communist penetration; a source of

oil supply for Western Europe; an area of financial investment, especially in the production of oil; and the establishment of political stability which would permit peaceful economic and social development (the great aim of the free world). While the objectives are clear enough, the policies to achieve them have not been successfully formulated or applied. These policies, which have included military pacts, have been characterized by hesitation and vacillation, difficulties between allies, expediency and, finally, complete paralysis. The last-named is illustrated in the case of Iraq.

The Soviet's objectives may be summarized in almost the same order, but they are negative in character. Since the Middle East practically borders on Soviet territory, the first aim must be to frustrate the efforts of the West and thus remove a possible military danger to Soviet territory; then to help the Arab countries rid themselves of Western dependence and assistance and supplant the West as the major source of military, technical and economic aid; penetrate into the region, almost imperceptibly, and bring it within the Communist camp, either through internal growth of Communist-oriented forces developed out of the national bourgeois revolutions, or through revolutionary Communist regimes which would be established as a result of internal chaos and collapse. The policies adopted by the Soviet leaders followed the lines of their objectives: to bribe the Arabs with anti-Western acts; to give them economic, military and technical aid; to assume pro-Arab positions in the international arena; and to fish in the muddied waters of inter-Arab conflict.

The latest chapter of the East-West conflict in the Middle East, in which the former bested the latter, is the case of Iraq. Up to July 14, 1958, the only Arab nation that worked with the Soviet Union and served as a means of Communist penetration into the Middle East, as well as a means of weakening the West's position and prestige, was first Nasser's Egypt and then Nasser's United Arab Republic. The military aid, economic aid, and the support extended to the Nasser regime enabled the Soviets to gain prestige and valuable positions in the very area where the West's major oil supply was located. Whatever the practical assistance the Soviets

offered Egypt during the Suez Canal crisis, and although the United States was a decisive factor in saving Nasser from complete disaster, it was the Soviet Union that Nasser and his followers in the Arab world credited with helping bring about the Egyptian victory.

The men in the Kremlin did not feel comfortable being solely dependent on Nasser: the ruler of Egypt was not a Communist, and his blackmail game might become too costly. As long as there was no alternative, however, the Soviet policy makers were ready to deal with him exclusively. Then, suddenly, a revolution took place in Iraq; the old regime was wiped out and the new leader, Kassim, was no less anti-Western, and no more Communist than Nasser. Why not support him as a second force in the Middle East that would cooperate with the Soviet Union, and at the same time make him serve as a balance against the ruler of Egypt?

The new Soviet policy was based on maintaining good relations with Nasser, by condoning his persecution of the local Communists and by continuing to give him aid, and, at the same time, on supporting Kassim against Nasser and doing everything possible to prevent the collapse of the Iraqi revolutionary regime. For Iraq, much more than the U.A.R., had become, in the eyes of the West, the U.S.S.R.'s challenge to the West in the Middle East.

It must be admitted that the Soviet Union's policy has so far been successful. After all his bluster and threats, Nasser is as closely tied to Moscow as ever before, and in spite of the tireless efforts of the Western powers to be permitted to finance the building of the second stage of the Aswan High Dam, Nasser awarded it to the Soviet Union. In Iraq, Soviet penetration has proceeded along the same lines as in Egypt, and the local Communists have served a very useful purpose.

The Western powers have had less success. Their first reaction to the revolution was panic; it was a Nasser-engineered and Soviet-supported *coup d'état* which would deprive the West of its oil resources and other interests. However, after the flow of oil was assured, the West was willing to continue relations with the new regime on practically the same basis as with the old one, including the extension not only of economic but also mili-

tary aid. All the members of the Bagdad Pact—Pakistan, Turkey, Great Britain—and the United States recognized the Kassim regime.

When the quarrel between the U.A.R. and Iraq became very sharp and Nasser made the Communists the issue between himself and Kassim, the United States was at a complete loss. The elements in Washington who believed that Nasser had finally seen the error of his ways in dealing with the Soviet Union and was desperately seeking to return to the Western camp warned that any gesture towards Iraq would discourage him and force him back to the Soviets. The West must recognize the force of Arab nationalism under his leadership and come to terms with it; let Nasser and his Arab nationalism become the major force against communism in the Middle East (especially in view of the alarming reports that Iraq was about to fall into the hands of communism).

There were other elements, however, who advised, and for the same reasons, that no friendly move be made towards Nasser which would weaken the anti-Communist forces in Iraq, strengthen the Communists, and drive Iraq into the waiting arms of the Soviet Union. The result—complete paralysis. As Washington and London watched and hoped Nasser became more deeply involved with the U.S.S.R.

Curiously, the United States and Great Britain are described by both Bagdad and Cairo as enemies of the Arabs, and each accuses the other of working with the enemy: the imperialists, the United States and Great Britain. The Western policy in the Middle East, as it expresses itself in Iraq, has served neither principle nor expediency. But, as with all other major international issues, it is very likely expected that the forthcoming summit conference will relax the tensions in the Middle East and that the problem will somehow be solved.

Benjamin Shwadran has been a lifelong student of the Middle East. He has taught Middle East courses at the New School for Social Research in New York and at Dropsie College in Philadelphia. He is the author of *The Middle East, Oil and the Great Powers* (1955) and *Jordan, A State of Tension* (1959). He is editor of *Middle Eastern Affairs*.

Discussing the challenges to Western enterprise in a nationalist environment, this specialist notes that in the Middle East "the public frequently has a negative and distorted view of the oil companies." Granted that "The list of criticisms is long and, in most cases, not based on solid facts," the oil companies must find a way "to refute the unfair criticisms and to convey the image of themselves which would correspond to the truth."

Oil in the Middle East

By GEORGE LENCZOWSKI

Associate Professor of Political Science, University of California at Berkeley

Oil in the Middle East occupies a unique position in at least two respects. From the economic point of view, it is the largest single commodity produced in the area and one that provides the oil-rich countries with a major source of revenue. Moreover, Europe depends heavily on it for its fuel supplies. From the political point of view, oil may be viewed both as an integrating and a divisive factor. Its integrating role may be seen in the growing interdependence of the West and the Middle East. Its divisive quality lies in the circumstance that it might become a bone of contention between the freshly emancipated states of the Middle East and the Western oil corporations which have undertaken its extraction and commercial exploitation.

The relationship between these Western companies and the sovereign host states gives rise to a number of issues, which should be resolved to the satisfaction of both parties if

oil operations are to preserve their continuity. It will be the purpose of this paper to identify and discuss the most important of these issues. By the way of introduction, it may be in order to give some idea of the magnitude of the operation itself.

The Middle East contains an estimated three-fourths of the proved reserves of oil in the world. In 1959, it produced about 230 million tons of crude, representing close to 25 per cent of the world's production. Middle Eastern oil filled about 80 per cent of Europe's requirements in oil, and Europe served as its principal marketing outlet, the areas east of Suez and North America representing two other destinations.

The four major producing and exporting countries are (in descending order): Kuwait, Saudi Arabia, Iran, and Iraq. They are followed by Qatar, Bahrein, and the Neutral Zone. Egypt produces more than Bahrein, but it virtually does not export, having to fill, in the first place, the needs of its own domestic market. In 1959, it has reached virtual self-sufficiency. Oil was found also in Turkey, Israel, and Syria, thus far in minor quantities. Outside of the Middle East proper major discoveries were made in 1957-1959 in Algeria and Libya both. Algerian production is already well under way, having supplied France, as of 1959, with 1,350,000 tons of crude. Commercial production in Libya is expected to develop by 1962. Both will tend to diminish the relative importance of Middle Eastern oil proper, yet no decrease in production is anticipated in view of the steadily mounting demand in Europe and elsewhere.

The six principal oil-exporting countries of

George Lenczowski is a member of the Political Science Department of the University of California at Berkeley. A resident of the Middle East between 1938 and 1945, he has been revisiting the area every year since 1955. His books include *Russia and the West in Iran*, *The Middle East in World Affairs*, and the recently published *Oil and State in the Middle East*. He is also the author of "Political Institutions of the Middle East," in the collective volume *Mid-East: World Center* (R. N. Anshen, ed.).

the Middle East secured a total of about \$1.275 billion in revenue from oil operations in 1958. Of these, tiny Kuwait's revenue was the highest—over \$400 million, followed by Saudi Arabia (about \$300 million), Iran (about \$250 million) and Iraq (about \$235 million). In each case these revenues accounted for a major part of the state budget: around 90 per cent in Kuwait, 85 per cent in Saudi Arabia, 70 per cent in Iraq and between 50 and 60 per cent in Iran.

Iraqi-Iranian Development

In the case of at least two countries, Iraq and Iran, their oil revenues provided a financial base for the launching of ambitious development schemes: a succession of six-year plans in Iraq, and the seven-year plan in Iran. In Iraq, 70 per cent of oil revenue has been earmarked for development purposes according to a law of 1952. In Iran, there is no such rigid provision. Currently, about 55 per cent of the latter's oil revenue is channelled toward the development.

Until the revolution of July, 1958, Iraq was making good progress with its development plan. Emphasis was placed on long-range schemes likely to increase the country's arable area and productivity. Two major dams, on the Euphrates (Habbaniya project) and the Tigris (Wadi Tharthar project) were constructed between 1955 and 1957, and an ambitious road building program was undertaken. Critics of the plan maintained that too little was being spent on the immediate impact projects likely to bring tangible benefits to the masses. The revolution of 1958 brought some of these critics to power, thus paving the way for considerable changes in the concept and execution of development planning. It is too early to attempt a valid evaluation of these changes. The immediate effect of the revolution has been the disruption of the existing plan and the replacement of many Western contractors and technicians by the ones recruited from the Soviet bloc. One will have to wait a little longer to see more clearly the outlines of the new order emerging from what it is hoped is only a temporary chaotic condition.

Iran's first seven-year development plan was adopted in 1949, but due to the complications arising out of the nationalization of the oil industry in 1951, it was not carried

out. Following the settlement of the oil crisis, a second seven-year plan was launched in 1956. It provided for expenditures totaling over \$900 million. The execution of the plan was slow in gaining momentum, partly because those in charge of it insisted on thorough preliminary studies by foreign engineering firms before undertaking any new construction. By 1958, however, a number of projects were under way, notable among them being the completion of the railroad branches between Teheran and Tabriz and Teheran and Meshed. Iran's plan, like that of Iraq, was criticized for its emphasis on long-range major projects to the detriment of smaller schemes of immediate interest to the villagers and town-dwellers. Implementation of the plan was exposed to a strain when its original director, one of the ablest executives in Iran, was compelled to resign in 1959, largely because of political pressures.

Generally speaking, Iran's plan was exposed to three continuous dangers: (a) that it might become subject to too much political interference, thus losing its original non-political character; (b) that, due to the lack of firm legislation, an ever increasing portion of oil revenues would be directed away from development and toward the filling of ordinary deficits in the state budget; and (c) that in its over-emphasis on long-range projects it might expose the country to such a strain as to contribute to a major political upheaval, the makings of which have been evident for some time in the unhealthy socio-economic structure of the country.

Economic development planning would not have been possible without a high level of oil production. The latter necessitated heavy investments in wells, equipment, refineries, pipelines, transportation and marketing facilities. If such investments were made (and they amounted to a total of \$2.440 billion by 1955), it was in the expectation of profits to be realized over a lengthy span of time. It was the purpose of the long-term concession agreements to assure a continuity of operations over an extended period, and at the same time to protect the concessionaire companies against discriminatory taxation. Due to the size of their investment and the magnitude of their operations, the companies were bound to emerge as the largest

industrial enterprises in the generally underdeveloped area of the Middle East.

Moreover, the area in question is currently passing through a phase of revolutionary transition. On the one hand, it is achieving—not always smoothly—emancipation from Western dominance; on the other, it is undergoing an internal revolution and reform of its own, frequently of anti-capitalist tendencies. In some ways, therefore, the presence of large, privately-owned foreign companies in the midst of this unstable and alien environment is a paradox likely to pose a number of perplexing problems of adjustment. In the first place, there is the business aspect: on what terms should a foreign company be allowed to undertake the exploration and exploitation task? Secondly, there is the legal aspect: by which means should the respective rights of the companies and the host countries be protected? This is linked with the political issue of the extent to which the principle of sovereignty should be recognized in relations between a state and a private alien. And, finally, there is the socio-economic aspect: what role should the oil industry play in the general development of the host countries?

The Business Aspect: Terms of Concessions

Since 1950-1952 the prevailing formula has been a 50-50 profit sharing between the companies and the host governments. In Iran, this formula was introduced somewhat later—in 1954—as part of the agreement concluded between the government and an international consortium representing seven major and nine “independent” oil companies. The equal split of profits occurs before the payment of taxes by the companies to their home governments. Although only one concession agreement—that of the Iraq Petroleum Company—contains what amounts to a formal stipulation of the most-favored nation treatment, such a formula is implicit in other concessions as well, inasmuch as it is hard to imagine how any company could for long withstand the pressure for revision of terms if some other major concession agreements were substantially revised in favor of the host governments.

Although the 50-50 formula is of a recent vintage, some producing countries were trying to obtain better terms when granting

new concessions. This was especially the case of Iran, when, in 1957, it passed an Act opening new areas, on land and offshore, to oil exploitation, and also of Saudi Arabia and Kuwait with regard to their jointly owned Neutral Zone. The innovation introduced by Iran was that instead of granting a concession to a foreign company, it provided for a partnership between the National Iranian Oil Company (a governmental body) and a foreign company. Such a “joint structure” would set up an operating company, which would pay Iran 50 per cent of its profits. All in all, the Iranian government was to receive 75 per cent of the profits. Although this represents a substantial departure from the existing pattern, it should be pointed out that no major oil corporation was willing to agree to such terms and that the new agreements were concluded with smaller “independent” organizations (an Italian, an American, and a Canadian, of which the latter soon withdrew).

The Neutral Zone concessions were granted in 1958 by Saudi Arabia and Kuwait to a Japanese company for the exploitation of oil resources in the Zone's offshore areas. These concessions contain two principal innovations: (a) they provide for payment of 56 per cent (to Saudi Arabia) and 57 per cent (to Kuwait) of the net profits of the concessionaire company; (b) they introduce the formula of an “integrated” operation. This formula has been advocated during the past few years by certain officials of the Saudi Arabian government, the gist of it being that a concessionaire company should not restrict its operations to the host country but should extend beyond its boundaries, organizing its own transportation system and a marketing organization in foreign countries.

While this formula might prove practicable in the special case of the Japanese-Arabian agreements, there being a single Japanese organization to deal with, it is unacceptable to the older Western companies. This is so because the concessionaire operating companies are in each case owned by a number of parent companies of American, British, French or Dutch nationality, which possess their own transportation and marketing organizations. Their argument is that if they were to allow their jointly owned operating company to develop its own marketing

system, an inevitable conflict of interest would arise, and the parent companies would be subjected to double taxation.

Sovereignty vs. Sanctity of Contract

In the course of their operations in the Middle East, the companies have been subjected more than once to pressures from the host governments to revise the terms of concession agreements. In some cases the host governments have actually violated the agreements (by imposing, for example, taxation from which the concessionaires were explicitly exempted) or repudiated them altogether. The latter occurred twice in Iran: in 1932 and in 1951. To justify these moves, the host states have, as a rule, invoked the principle of national sovereignty as permissive of unilateral actions toward private individuals and corporations. In one case the violation of the agreement took the form of the sabotage of oil installations: this happened when pipelines in Syria were blown up in the wake of the Suez crisis of 1956. Although in this particular case the Syrian government denied direct responsibility, it nevertheless withheld permission to carry out repairs until the Egyptian territory was evacuated by the invading forces of Britain, France and Israel.

In all these cases where their acquired rights were threatened or violated, the companies invariably pointed to the binding force of their concession agreements and invoked those legal principles of civilized nations which uphold the sanctity of contracts. At the same time, facing discriminatory treatment, they steadfastly refused to be subjected to the law and jurisdiction of the host states, securing in advance, through their concession agreements, impartial arbitration procedures to be applied to such disputes as might arise between them and their hosts.

This, however, did not completely solve the legal dilemma, for two reasons. In the first place, international law is not so clear on the subject of relations between a sovereign and a private alien as the interests of international commerce may demand. In fact, while the binding force of contract is frequently upheld, enough ambiguity exists to warrant considerable scepticism on this score. In the second place, there exists no adequate enforcement machinery to make

the reluctant sovereign state accept and carry out whatever verdict might have been issued by the arbitrators or any other judicial body to which such a state had originally agreed to submit a dispute.

Legal safeguards, therefore, being insufficient, only extra-legal ways to protect their interests remain to the companies in the ultimate resort. One such way is to invoke the protection of their home governments. The willingness of the latter to protect them will depend on many factors. A wide variety of attitudes may be expected here, ranging from close identification of the home government with the company (as was the case in the Anglo-Iranian oil dispute, 1951-1953, when the British government insisted that the concession agreement was in reality a treaty between Britain and Iran) to a complete disassociation between the two (as is generally the case of the United States government whose legal proceedings, both civil and criminal, against the leading American oil corporations are a matter of record). Even granting a close identification of the government and company interests, it is debatable to what extent the government would want to resort to the use of force to protect the company. The mid-twentieth century trend is to shun the use of force. Both the anti-imperialist spirit of modern times (at least as far as Western in contrast to Soviet imperialism is concerned) and the emergence of the United Nations with its peaceful procedures of persuasion make unlikely a rash resort to force in such circumstances.

Consequently, the only way for the companies to safeguard their interests against the possible abuses by the sovereign host country is to rely on their own strength and wisdom. Their strength should be viewed primarily in economic terms. Basic ingredients of strength could be listed as: the companies' bigness and financial resources; alternate sources of supply in crude oil; and effective control of transportation and marketing outlets. As for wisdom, it should dictate the pursuance of such policies as to bring to the safest minimum the areas of tension likely to arise in the relations between the companies and the host countries. Such policies embrace a variety of sectors: psychological, social and economic. It is these that we propose to discuss presently.

The Oil Industry's Role in Host Countries

There is no doubt that the companies' relations with their host countries cannot be restricted these days to the governmental sphere alone. Public opinion has become a real force in the contemporary Middle East, regardless of the form of government which individual countries possess. The influence of public opinion was clearly demonstrated in 1951 when Dr. Mohammed Mossadegh, leader of a small minority group in the Iranian Parliament, unleashed a popular movement which culminated in the nationalization of the British-owned oil company. It is therefore supremely important to the companies what sort of image of themselves exists in the minds of the host countries' public.

By and large, at the risk of some oversimplification, it may be stated that the public has frequently a negative and distorted view of the companies. While eager to avail himself of the employment opportunities offered by the companies, the "man-in-the-street" of the Middle East seems to be harboring a number of grievances against the foreign-owned and foreign-managed oil industry. These grievances, of an economic, industrial and political nature, are often fanned by demagogues who perceive in the companies an easy target to attack with relative impunity. Charges of exploitation are mixed with those of the "state-in-state" relationship and reinforced by complaints about unequal treatment of local employees. The list of criticisms is long and, in most cases, not based on solid facts.¹

The problem for the companies is to refute the unfair criticisms and to convey the image of themselves which would correspond to the truth. Their task in this respect is not easy because their very bigness makes them conspicuous. Yet bigness is one of their essential attributes and, in fact, represents an economic and political necessity. The companies' reaction may be summed up as a refutation by words and a refutation by deeds. The first means a public relations policy which, using all proper media of communications, would correct the distorted image and convey the right kind of message to the public. All major companies in the Middle East have established public relations bureaus which are busy trying to reach a

variety of audiences. It is very difficult to evaluate the results of this activity. Poll techniques are virtually unknown in the Middle East and it is doubtful whether the companies, even if permitted to do so by the host governments, would want to use them. Moreover, it is doubtful whether any poll could give a really truthful representation of the public's feelings toward the companies. Consequently, the companies have to rely to a pronounced degree on intuition and an analysis in depth rather than on quantitative techniques in this sector.

Refutation by deeds represents the totality of the socio-economic policies followed by the companies. Here a great deal can be done to adjust the companies' practices so as to make them more palatable to the host governments and the public alike. The first and foremost issue is, naturally, that of the ratio of division of profits between the companies and the host countries. This matter has already been discussed in the previous section of this article. Suffice it to say here that a formula which appeals to the host country as fair is probably the best means of presenting the company in a favorable light.

Apart from this basic factor, other important considerations deserve attention. Such is, for example, the willingness of a given company to act as a stimulator of economic growth and technical progress in the host country beyond and above the mere fulfillment of the contractual obligations. A good example in this respect has been the establishment by the Arabian-American Oil Company (Aramco) of the Arab Industrial Development Department, the task of which is to advise the prospective industrialists and businessmen in Saudi Arabia on how to launch their new enterprises. Advice thus given would sometimes go to the extent of supplying complete blueprints of a new industrial establishment.

Another way in which the companies may both stimulate the local economy and establish closer links between themselves and their immediate environment is to avoid physical and economic isolation which, in the initial stages, has often been practiced, partly out of necessity and partly out of choice. In the

¹ For a detailed analysis of this problem, see George Len-czowski, *Oil and State in the Middle East* (Ithaca, N.Y.: Cornell University Press, 1960), Chapters XI and XII.

1950's most of the major companies have adopted the policy of social "integration" to achieve the above-mentioned objective. Concretely, this meant that the companies would utilize more often than before the services of local contractors, would follow a policy of making local rather than overseas purchases (to the extent compatible with the technical requirements of efficiency), and would sponsor house-ownership plans for their employees which would put an end to their physical isolation from the surrounding communities.

The companies' industrial and human relations toward their own employees constitute an important part of these policies, where deeds speak as eloquently as words. The host public has generally demanded equal treatment and increased opportunities of advancement for their national employees. In many cases the companies were criticized unfairly, inasmuch as such local talent as was available was not of the caliber which would make it eligible for senior positions. Yet, with the spread of education and a return of many local nationals from studies abroad, the picture has been changing. Alertness to these changes is necessary if the companies wish to preserve the good will of their host countries. Some of the problems in employee relations have been truly baffling. Such, for example, has been the problem of trade-unionism, which is frequently discouraged by the host governments. In certain cases the lack of legitimate workers' representation has led to considerable tension, finding its release in sudden violence. Perhaps a gradual evolution toward some form of unionism would have prevented these outbursts. But here the companies would have to deal not only with their own preferences, but also with the policies of the host governments, which may sometimes be too rigid to be safe.

Last, but not least, it should be pointed out that the Middle East, especially its Arab

"Education is a powerful personal ideal to people in the underdeveloped countries. It is also indispensable to their economic progress and national independence. At one time, it was the rather simple belief that the reason some countries were poor and laggard was simply that they lacked necessary capital and know-how. But we are coming to understand that money and techniques are not enough."

—*Hubert H. Humphrey, United States Senator from Minnesota, in an address delivered on March 3, 1959.*

part, is experiencing the spread of what may be termed the "oil consciousness" among its educated classes and the masses alike. This trend has found its organizational expression in the creation of a permanent Petroleum Office in the Secretariat of the Arab League. It was on the initiative of this office that the first Arab Oil Congress was held in Cairo in April, 1959. The Congress adopted a number of significant resolutions reflecting the general tendency of the Arab League to formulate a unified Arab oil policy. For the past few years the League has been advocating the creation of an Arab tanker fleet, the establishment of a petroleum institute to train Arab oil technicians, and the unification of standards to be adopted when granting new concessions. The League has also been studying a proposal to construct an all-Arab pipeline linking the Persian Gulf with the Mediterranean.

By way of conclusion, it may be asserted that the companies' main problem is to maintain the continuity of their operations, first of all by assuring respect for the concession agreements, and secondly, by following such economic and social policies as will lessen the tension inherent in the contrast between their own bigness, modernity and power, and the poverty, underdevelopment and anti-colonial complexes of the host countries. Naturally, even the ideal behavior of the companies may prove of no avail if there is a completely negative attitude toward them on the part of their hosts. But this is seldom the case. More often the host countries are vacillating between the temptation of some drastic unilateral action and a desire to assure the continuity of oil operations for understandable economic reasons. To maximize this desire is the main task that the companies face today in a turbulent climate of growing nationalism and revolutionary reformism in the Middle East.

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ELECTRONIC REPRODUCTION PROHIBITED

Because so little of the Northern Sector of the U.A.R.—Egypt—is habitable, President Nasser must seek an early “solution to demographic pressures.” This long-time observer of Middle Eastern affairs points out that the Aswan Dam is the central focus of U.A.R. development plans: “Actual work on the project was begun in January, 1960. Some ten years and a probable additional five million souls hence, it can be determined whether, in view of its costs in Egyptian money and labor and foreign obligations, the dam will meet President Nasser’s hopes and expectations.”

Operation Bootstrap in the United Arab Republic

By HALFORD L. HOSKINS

Senior Specialist in International Relations, Legislative Reference Service, Library of Congress

IN THE ARAB world the principal political factor, by virtue of strategic position, size of population, tradition and present leadership, is the United Arab Republic. In terms of economic resources, in contrast with certain Arab states rich in oil, the U.A.R. is not so well fitted for leadership because of its relatively poor endowment by Nature. Egypt, the principal component of this unitary state, must rely basically on a narrow

ribbon of alluvial soil terminating in an alluvial delta, very productive when properly fertilized and moistened; and to utilize this resource Egypt has an over-abundant supply of human labor.

But other natural resources are more or less incidental. There are petroleum deposits, insufficient to serve Egypt’s modest domestic needs; impure iron ore and low-grade coal deposits, inadequate in themselves for extensive industrial development; a fine winter climate, which—together with antiquities and scenery—serves as an enticement for tourism when political conditions are stable. An important potential resource exists in the power that can be generated and the additional irrigation water that can be drawn from the Nile River in its descent from the Sudanese tableland.

With further reference to Egypt’s fitness to serve as the lodestar of the Arab world, the factor of population and its distribution need to be taken into special consideration. Egypt has a total area of about 386,000 square miles. If the entire area were sufficiently productive and the population of approximately 25 million were equally dispersed over the area, the country would have a population density of some 65 per square mile. As it is, however, only about 13,000 square miles are habitable, an area that will be only slightly increased by prospective irrigation works. Population density in the

Halford L. Hoskins has been a student of the modern Middle East for a considerable span of years. His studies have included periods of travel and residence in the area and research in the manuscript records in the Citadel archives in Cairo. His writings include *British Routes to India* and *The Middle East: Problem Area in World Politics*. Dr. Hoskins was the organizer of the Fletcher School of Law and Diplomacy in Medford, Massachusetts, and served as its dean for 11 years before setting up the School of Advanced International Studies and the Middle East Institute in Washington, D. C. He also initiated the *Middle East Journal*. In addition, he is Adjunct Professor in the School of International Service at the American University.

habitable portion of the country thus is above 1,900 per square mile, as compared with a density of 763 per square mile in Belgium, one of the most populous parts of Europe. In Egypt, ninety-nine per cent of the population lives on four per cent of the land.

An annual increase in the population above 2.5 per cent makes evident the fact that the leadership of the present regime cannot escape the necessity of devoting much of its thought and energy to such improvements in the economic life of the country as might relieve these growing demographic pressures. Especially important is the development of appropriate lines of industry as a means of providing a livelihood and possibly an improved standard of living for ever-increasing numbers of Egyptians.

Syria, the other component of the United Arab Republic (Yemen is but a loosely federated unit of the over-all structure called the United Arab States), also is a fundamentally poor country. It also has desert areas, though not so extensive as those in Egypt, and its agricultural lands are not so narrowly constricted. Here, pastoral pursuits contribute appreciably to the country's economy. Lacking in petroleum and in significant quantities of most minerals, Syria does not possess the sinews of industrial development on a large scale without supplementary aid. Nevertheless, it has made good use of its resources, including the skills of its population, to develop a stable economy in which handicraft manufacture and trade have figured largely. In late years a useful source of income has been found in royalties paid by the Iraq Petroleum Company for the transport of oil through pipelines to Syrian ports.

U.A.R.-Syria Compared

Syria has not been plagued by population pressures. With an area of about 72,000 square miles and a fairly well distributed population of only 4.5 million, Syrians, generally speaking, have considerably more per capita wealth and higher standards of living than have the Egyptians—a circumstance that has complicated administrative problems of the United Arab Republic. Like Egypt, Syria has not heretofore made maximum use of its potential resources. Plans

drawn for the development of the Euphrates River, for example, envisage the addition of at least 100,000 acres to present agricultural lands. Possibilities of this nature have given rise to thoughts that in future the Northern Region of the U.A.R. may conceivably provide some outlet for the surplus population of the Southern (Egyptian) Region.

The present U.A.R. regime came to power in 1952 committed to a program of integrity in government and improvement in the economic and social structure of Egypt. Little time was lost in seizing for the state the properties of King Farouk, abolishing class distinctions, and sketching a program of land reform. Actual achievement along these lines proved to be a slow and laborious process, owing to the inexperience of the revolutionary junta, the necessity of dealing with international political issues, and the extent of financial ruin wrought by the corrupt preceding regime. It soon became apparent that without substantial assistance from external sources little progress could be made in bolstering the country's economic structure even to the point of keeping abreast of the mounting population.

The preoccupation of the revolutionary junta during the years 1952-1954 with problems such as United States efforts to enlist Egypt in Western-sponsored defense alignments and British reluctance to withdraw from their elaborate system of defense bases in the Suez Canal Zone gave the Soviet Union its first opportunity to offer material aid. As early as February, 1954, Soviet proposals were being considered in Cairo for aid in an extensive program of industrial and agricultural projects. The conclusion of agreements with Soviet authorities was deferred, however, in view of the announced readiness of the United States to enter into "firm commitments" for similar forms of aid "simultaneously" with the signing of an Egyptian-British accord relative to the Suez Canal Zone—an event consummated on October 19, 1954. On November 6 following, an agreement was signed whereby Egypt would receive from the United States \$40 million in development assistance while studies were being made of the practicability of constructing a high dam at Aswan on the Nile which might increase Egypt's cultivable area by about 33 per cent.

Aswan Dam

Egyptian development plans looked promising during the early months of 1955. Trade was expanding; United States technical experts, working with an Egyptian team, were surveying Egypt's industrial potential; oil production in the Sinai Peninsula was being stepped up; plans were going forward for improvements in the use of the Suez Canal from which Egypt would receive some small benefit. More important, progress was being made on plans for bringing the Aswan High Dam to realization. Before the year's end, against an estimated total cost of \$1.3 billion, the United States had indicated a willingness to contribute \$56 million, with Great Britain adding \$14 million and the International Bank for Reconstruction and Development providing a \$200 million ten-year loan at a 5 per cent interest rate. It was estimated that the dam, to be finished in 15 to 18 years, would bring 1.3 million new acres of land under cultivation and transform an additional 700,000 acres from basin to perennial irrigation. This would provide a living for more than 300,000 peasant families and increase the value of Egypt's annual production by some \$392 million.

These developments, so promising for Egypt's future, encountered increasingly serious difficulties all along the line. World Bank authorities doubted that the undertaking could be achieved without causing serious monetary inflation in Egypt, particularly since the Egyptian government was unwilling to submit to the Bank's inspection and guidance in fiscal matters. At the same time, Egypt's relations with the Western powers were deteriorating, ostensibly because of its inability to secure from the West the types and quantities of arms desired for an improved military establishment. In August (1955), Egypt signed a trade pact with Communist China covering arms shipments and in September concluded a barter deal with the Soviet Union for extensive military aid from members of the Soviet bloc.

Rift with the West

Differences with the allied powers of the West were worsened by the fact that Egypt had not yet cleared with the Sudan over Nile water rights, by serious clashes of Egyptian and Israeli forces along the Gaza Strip, and

by the increasingly ugly tone of Nasser's tirades against the Western sponsors of the Baghdad Pact and by his threats to look to the Soviet Union for aid in building the Aswan High Dam. A climax was reached when, on July 19, 1956, Egyptian Ambassador Ahmed Hussein appeared at the Department of State in Washington with a formal request of action on the seven-month-old offer to give assistance with the construction of the Dam and was curtly informed by the Secretary of State that such action was "not feasible in present circumstances."

The effect of this confrontation was to make Egypt largely dependent on members of the Soviet bloc during critical years not only for arms aid but also for economic and technical aid in a variety of forms. The seizure by Nasser's government of all Canal operations of the Suez Canal Company a week after the rebuff to Ambassador Hussein and the subsequent attempts and failure of the Western powers to restore a semblance of international control over the use of the Canal reinforced the bonds being fashioned between Cairo and Moscow. Concomitantly, Nasser's self confidence and his prestige over much of the world were greatly heightened. For the time being, however, it seemed probable that the action of Great Britain and the United States in blocking Egyptian monetary accounts in those countries and a partial boycott of the Suez route by shipping interests after the Canal was cleared of obstructions in March, 1957, together with a poor cotton crop and continued inflation in Egypt might actually compel President Nasser to make some concessions respecting oversight of Canal operations.

Sequestration of British and French business properties in Egypt to the value of nearly \$500 million was a logical retaliatory act for the armed attack on Egypt, but it brought little financial relief. Only timely assistance from the Soviet Union in shipments of wheat and petroleum products enabled Egypt to weather this serious economic crisis.

Aftermath of Suez

The dark months of late 1956 and half of 1957 gave way to a somewhat brighter prospect. This began with the Suez Canal. A year after the Anglo-French attack, the commerce of nations had returned to the Suez

route and Canal receipts were beginning to justify Egyptian persistence in holding out for complete control of the waterway. Nasser's belief that Canal traffic might one day yield \$100 million annually in revenues appeared over-optimistic at first; yet by the end of fiscal 1959 the Canal was earning a gross revenue of more than \$120 million, dwarfing the \$8 million that Egypt had received under the Suez Canal Company's administration. Widespread approval in the business world for Nasser's ten-year plan for widening and deepening the waterway at an estimated cost of \$270 million sparked a loan to the U.A.R. from the World Bank of \$56.5 million at the end of December, 1959. In view of the fact that Egypt then was drawing considerable sums from Canal earnings for purely domestic uses, this loan was indirectly a form of aid to the Egyptian economy as a whole.

Meanwhile, the Soviet Union had been giving effect to its earlier promises of aid. On January 29, 1958, arrangements were concluded for a Soviet 12-year loan to Egypt of \$175 million, to which Czechoslovakia was prepared to add \$50 million in credits, all to be repaid at an interest rate of 2.5 per cent in terms of Egyptian cotton, agricultural products and "freely convertible currencies."

Among the many projects to which the loan would be applicable were marine workshops, a drydock, an automobile assembly plant, metallurgical machine construction, and chemical, textile and food industries—features of a five-year \$750 million program of industrial expansion. Syria, too, had been the recipient of Soviet bloc credits for economic and technical assistance. Prior to the time of union with Egypt on February 1, 1958, Syria had accepted aid from non-Western sources to the value of \$294 million, inclusive of arms agreements, which ran to about \$100 million. Projects envisaged here with Soviet aid included hydroelectric power stations, irrigation works, railway and bridge construction, a fertilizer plant, and petroleum and other mineral exploration.

The political union of Egypt and Syria appears not to have altered arrangements made previously by either region in respect of aid or trade. Nasser undoubtedly expected each of the two regions to profit by the continuation of development programs current in the other. The extent to which this expectation

may come to be realized cannot presently be known. Syria appears to have been as deeply involved in obligations to the Communist bloc at the time of union as was Egypt. The Syrian development program is only lately begun. In some ways it may have been handicapped by union with Egypt.

In taking over responsibility for Syria, Nasser failed fully to appreciate the different lines along which the economies of the two regions had evolved. His early attempts to apply to Syria the criteria for economic reform and development which he deemed appropriate for Egypt thus miscarried somewhat. Indeed, it was found necessary, in August, 1958, to set up a separate budget for the Syrian province under a kind of free enterprise system. At that time it was found imperative, because of a serious decline in normal sources of Syrian income owing mainly to prolonged drought and also growing expenditures for internal and external security, to transfer to the Syrian account the equivalent of \$7 million from Egyptian funds. As to their economies, a union of the two U.A.R. regions will yet require considerable time and careful planning.

Time presses for a solution to demographic pressures in Egypt. While forms of popular education may help, the answer clearly must be sought mainly in terms of Egyptian development programs. Among the expedients that, along with rapid industrialization, may hold some promise is one for redeveloping a large ancient oasis in the Western Desert. It seems possible that underground water resources there may be sufficient to irrigate some five million acres for the support of six to eight million people. A less promising but long-considered project would involve the cutting of a channel from the Mediterranean to the Qattara Depression of World War II fame, eventually to form there a lake as large as Lake Ontario. The depression area, averaging 180 feet below sea level, is said to make possible the production of 1.5 billion kilowatts of power at a cost well below that of power production at the future Aswan High Dam. Both these projects are now under study.

The Nasser government still bases its main hopes for an economic breakthrough, however, on the Aswan High Dam. Since the unhappy events of 1956 this has constituted

a major challenge. The opportunity to implement this project, evaded by the Soviet Union in 1956, was taken up two years later. On October 3, 1958, Premier Khrushchev agreed to "participate" in the construction of the first stage of the dam. This arrangement included a loan of \$100 million, at the usual Soviet interest rate of 2.5 per cent, plus such technical aid and equipment as might be required. One year later Moscow indicated a willingness to see a "modified" Aswan plan through to completion substantially on the same terms that applied to the first stage.

On November 8, 1959, Egypt and the Sudan signed a new Nile Waters agreement, thus removing one of the last barriers to the completion of the High Dam. Actual work on the project was begun in January, 1960. Some ten years and a probable additional five million souls hence, it can be determined whether, in view of its costs in Egyptian money and labor and foreign obligations, the dam will meet President Nasser's hopes and expectations.

Foreign Aid

At the present time, with the aid of foreign loans, barter agreements, austerity measures and improved public administration, the United Arab Republic gives the appearance of having gained some ground in the race against demographic suffocation. Egyptian credit is high. Syria is accepting aid for the first time from the West. Regardless of the extent to which loans and credits already have been accepted, aid for almost every type of need still is available—from Soviet sources, from Western countries, from the International Bank. Trade missions and prospective investors in Cairo from many countries point up the success of the Nasser regime in building up confidence in the future of his country. How valid this outlook may be is a nice question. President Nasser has set out to double the national income in the next ten years and to improve living standards in the meantime by at least one-third. To achieve this, development plans call for expenditures amounting to more than \$10.4 billion at the official exchange rate. This will require a tremendous effort as well as additional foreign indebtedness by a country whose per capita income of \$112 is only about half of what it was earlier in the century.

Nasser's Foreign Policy

One of the main obstacles to the realization of this "operation bootstrap" lies in the demands of Nasser's foreign policy. He must have status symbols to bolster Egypt's leadership pretensions among the Arab states and to give firmness to his "positive neutrality" posture as regards the great powers' contest. At the same time, his regime is pledged to unremitting hostility toward well-armed Israel, a state firmly believed to be bent on further territorial expansion at the expense of its neighbors.

For the sake of military preparedness alone, Egypt and Syria before the close of 1958 had entered into contracts with the Sino-Soviet bloc for military aid to the value of not less than half a billion dollars. This type of investment not only is non-productive; it also generates an ever-continuing demand for further expenditures involving more obligations of the same sort as obsolescence scales down the worth of military equipment already on hand. The burden of an outsized military establishment thus is superimposed on an economic development program, itself largely dependent on external aid.

The question thus persists as to how, even if serious crises can be avoided during the next decade, the U.A.R. can contrive to remain militarily prepared for eventualities, continue to add to and service its foreign indebtedness, and yet increase its industrial and agricultural production at a rate commensurate with the demands of an expanding population. Much of the normal agricultural output of the country already is pledged in payment for military and developmental loans. Moreover, if foreign aid continues to be furnished mainly by the Communist bloc, it is open to speculation as to how much political freedom of action also will have to be sacrificed on the altar of economic improvement. Whatever its preference in the way of political orientation, a nation unable to supply its own basic needs in military or industrial equipment or in technical competence necessarily becomes beholden to the major source of supply of such requisites. There is evidence in his recent growing warmth toward the West that Gamal Abdel Nasser has given some long thoughts to this truism.

Israeli failure to become economically independent, according to the following analysis, lies in the fact that "economic factors have never been controlling in the formation of Israeli policy since the founding of the state." Consequently, it is now imperative that "strong measures" be instituted "to restore the sickly economy to health."

Economic Realities in Israel

By DWIGHT J. SIMPSON

Assistant Professor of Political Science, Williams College

ECONOMISTS have never been very popular in Israel and for the best of reasons: they are gloomy where Israeli officials are optimistic; they tend to be cautious and skeptical where the planners in Jerusalem are bold and enthusiastic. Moreover it is easily understandable that the modern practitioners of what Thomas Carlyle termed "the dismal science" would feel rather out of place in a country whose economy, in their view, appears to be based mainly on miracles rather than on sound and tested economic laws. Few things cause more professional pain to an orthodox economist than the sayings popularly attributed to Prime Minister David Ben-Gurion, including the one he is reported to have used as he overruled some earnestly proffered expert advice: "To be a realist in Israel, one must believe in miracles."

At the same time, however, the "miracle" of Israel cannot be overlooked. This tiny Middle Eastern state, although poor in natural resources, its land semi-arid or badly eroded and its finances in perpetual turmoil, has in 12 years succeeded in tripling its population and nearly quadrupling its industrial and agricultural output. And all this remarkable achievement has occurred despite

the uncompromising hostility of neighboring states whom Israel has twice engaged in military combat and whose continuing hostility makes necessary an enormous Israeli expenditure for armaments. Finally, to give the "miracle" added luster, Israel has doggedly stuck to the economic and social principles of the modern welfare state, with the result that Israelis today enjoy the second highest *per capita* income (\$817) in the Middle East. Only the tiny Persian Gulf Sheikdom of Kuwait, with its enormous oil deposits, outranks Israel in this respect.

Government officers in Jerusalem are fond of saying that Israel's spectacular accomplishments are based on hard work, courage and, admittedly, on at least a semi-official belief in miracles. Many economists, however, quickly point out that something far more tangible is primarily responsible for Israel's successes: \$3.5 billion made available to Jerusalem by a variety of foreign sources. Consequently the hard question for Israel is this: can she achieve economic self-sufficiency during the second decade of statehood or must she continue her heavy dependence upon foreign capital loans and gifts?

From the beginning of independent statehood in 1948, Israeli economic planners have consistently directed most of their efforts to an attempt at solution of what was termed the country's basic long-run problems. These included general economic development in both industry and agriculture, absorption of mass immigration and the economic burden of large defense expenditures. The so-called short-run problem—Israel's unfavorable trade balance—was either ig-

Dwight J. Simpson is a graduate of Oxford University with long experience in the Middle East. During 1960, Professor Simpson is engaged in a lecture tour of Greece, Lebanon, Iran, India and Nepal under the auspices of the U.S. State Department.

nored or relegated to a low position on the scale of economic priorities. This general approach had been possible only because of a steady, large-scale inflow of foreign capital which enabled the government planners to deal with their long-range problems without having to worry very much about the annually increasing deficit in balance of payments. And underlying this approach was the assumption that once the primary goals of development, immigration absorption and secure military defense were reached, the annual balance of payments deficit would begin to decrease and eventually disappear.

Immigration and Insolvency

Consequently, until very recently, economic independence was only an electioneering slogan used from time to time by all Israeli political parties. While immigration rose in volume and the arms race continued, no Israeli politician seriously aimed at balancing the government books. Ben-Gurion himself set the general tone by declaring bluntly that economic independence was not a priority target if this meant curtailing the flow of immigrants. His view, with which an overwhelming majority of Israelis concurred, was that all Jews who wished to come to Israel must be allowed to do so. Insolvency, it was argued, was preferable to any halt in the process of "ingathering of the exiles."

However compelling this argument may have been during the so-called "tidal wave" years of immigration (1948-1951), when the Jewish population of Israel doubled in numbers, it is increasingly plain that now, in 1960, the argument bears re-examination. It is still customary in some quarters to attribute Israel's current grave economic difficulties largely to immigration. However, figures released in 1959 by the Israeli Government's Central Bureau of Statistics show that immigration to Israel has declined precipitously since 1951 and for the past seven years it has accounted for a smaller proportion of the annual net increase of the population than has natural increase by births over deaths. During 1948-1951 Israel's net population gain due to Jewish immigration was 658,000, an average of 164,500 *per annum*. During 1952-1958 the similar total net gain from Jewish immigration was 166,000 for an

average net gain *per annum* of 23,700. Percentage-wise, the heavy immigration years gave Israel an average 17 per cent *per annum* net population gain whereas the subsequent seven years produced only a 1.4 per cent net *per annum* gain.¹

Consequently, in the light of this and similar evidence, Israeli leaders have recently been re-appraising their economic theories and practices. The voices of independent economic observers could no longer be ignored, especially in view of the fact that most of the voices were saying the same thing: Israel must shift its emphasis from long to short-run problems. In particular some start must be made in solving the critical balance of payments problem.

Additionally, capital investment in economically profitable industries must be encouraged while investment in industries whose products are economically non-competitive must be cancelled or sharply curtailed. Industrial and agricultural productivity must be made to rise sharply; wages must be stabilized and wage rates must be linked to worker productivity. Finally, domestic consumption must be sharply reduced so that a significantly larger proportion of Israeli output can be freed for the export trade. A quick insight into the seriousness of the problem can be gained by observing that in 1958 Israeli imports were in a three-to-one ratio to exports. The resulting balance of payments deficit for that year alone was \$350 million, a figure equal to 26 per cent of the Israeli gross national product.

Israel's progress here has not been encouraging. During the period 1950-1958 the balance of payments deficit was equal to 25 per cent of the gross national product on average, ranging from 19 per cent in 1951 to 31 per cent in 1956 to 26 per cent in 1958.² Consequently the deficit throughout Israel's existence has constituted a high, even increasing, proportion of available resources even though immigration has been reduced to a nominal figure and heavy investments made earlier have had more than sufficient time to bring beneficial results. The reason for this is plain: a sharply increased amount of Is-

¹ Government of Israel, Central Bureau of Statistics, *Sources of Increase of the Jewish Population of Israel 1948-1958*, (Jerusalem, 1959), Table I.

² Bank of Israel, *Annual Report for 1958*, Government Printer, (Jerusalem, 1959).

rael's greatly expanded production has gone, not into exports, but into spectacularly increased personal consumption at home. This fact is reflected by figures describing Israeli living standards. By 1958 over-all personal consumption had risen by 135 per cent over that of 1950 and *per capita* consumption was 45 per cent above that of 1950. In monetary terms, the previously mentioned figure of \$817 represents a *per capita* income increase of more than 100 per cent in less than a decade.³ Free from economic jargon, what this means is that Israel is eating, wearing and using an increasing amount of her products that might otherwise be sold abroad in order to reduce her foreign indebtedness.

If the supply of foreign money were to remain constant there would be no more compelling reason for anxiety about Israel's economic plight in her second decade of statehood than there had been in her first. But even assuming (somewhat doubtfully) the constancy of flow from two major capital sources—world Jewish philanthropy and the United States government—the great test for Israel will come in 1964 when the last reparations payment (out of \$822 million worth) has been made by West Germany. Then Israeli officials will be faced with the bleak prospect of trying merely to maintain the present economic level but with a wherewithal reduced by approximately \$150 million annually.

A Two-Fold Answer

The logical answer to Israel's economic dilemma would appear to be two-fold: speedy institution of rigid economic austerity at home and a concerted fostering of a greatly increased export trade. However, just as Benjamin Disraeli once reminded his Victorian colleagues that "England is not ruled by logic but by Parliament," so Israel is not ruled by logic but by the Knesset. The logic of introducing economic austerity is inescapable; politically it is nearly impossible. An effective austerity program would have to include the following points: currency devaluation, lowering of living standards and a sharp reduction of all government expenditures not directly in support of the export trade. These, in turn, would require a drastic increase in labor productivity, longer working hours, excellent labor discipline and

a mass discharge of redundant workers in relatively unproductive or non-competitive industrial establishments.

It must be clearly understood that even if these conditions—which in themselves would constitute a reversal of the country's present economic trends—were to be fulfilled, the necessary process of further streamlining the general economy, improving the quality of industrial output, eliminating wasteful and uneconomic investment and winning export markets would be long and painful. Periodically, leading non-political Israeli figures have publicly conceded that such strong measures are needed to restore the sickly economy to health. They have even urged austerity and, heretical for the Israeli welfare state, a sharp cutback in state-financed social services.

An example is David Horowitz, Governor of the Bank of Israel, who recently issued a discreetly worded but unmistakable warning that by 1965 Israel must, through her own efforts, achieve economic self-sufficiency. To reach this goal, according to Horowitz, the value of total production would have to be raised by 50 per cent, or by 10 per cent *per annum*.⁴ Such a projected rate of economic growth is by no means unattainable by Israel but it seems unlikely to be achieved unless her political leaders are willing to try and steer the country on a new economic course.

The question naturally arises why Israeli politicians, who have so many brilliant achievements to their credit, have allowed their economy to drift into such a condition. It is not due to any obtuseness or lack of understanding; as early as 1956, at the Congress meetings of Mapai (the ruling party in the government coalition) Prime Minister Ben-Gurion, Finance Minister Levi Eshkol and others frankly admitted the seriousness of the economic problem. The answer to the question is that economic factors have never been controlling in the formation of Israeli policy since the founding of the state. Political, ideological and military considerations have always taken precedence over economics.

Of these considerations, the military one is the easiest understood and at the same time

³ Bank of Israel, *Annual Report for 1958*, Government Printer, (Jerusalem, 1959).

⁴ *The New York Times*, September 28, 1959.

is the most important. In the absence of any enforceable peace settlement of the Arab-Israeli war, few Israeli politicians would argue against continuing the heavy annual outlays of capital for national defense. National survival depends upon maintaining a reasonable military parity with neighboring Arab states. But as the military power of the latter grows, and as the annual world price-level of armaments rises, so must the Israeli response become increasingly costly. Consequently Israel's national defense budget, although a closely guarded secret, is said to amount to approximately one-half of all annual disbursements. Since no Israeli-Arab diplomatic *detente* is foreseeable in the near future, economic reforms, if they are to be effected, will have to occur in other sectors of the economy.

One seemingly obvious area for retrenchment is the building industry which is mainly state-controlled or financed and which accounts for approximately 30 to 40 per cent of gross annual investment. The biggest single item here is new residential construction, state-financed and made available to immigrants at uneconomic rental figures. Such construction has the seeming advantage of maintaining high employment levels, particularly for the immigrants themselves, throughout the construction and building materials industries. The objection of economists who traditionally have termed residential construction "non-productive"—in the sense that it produces nothing for the export trade—has been ignored by the government.

More important, however, is the crucial political factor involved. Recent and severe rioting by "oriental" Jews—Jewish immigrants from Arab countries—has had a great impact on government thinking on the housing question. The riots were touched off by the long-held dissatisfaction of the oriental Jews who claimed that the government discriminated against them when it allotted housing to immigrants. Understandably anxious to prevent any deep split between "eastern" and "western" elements of the population and politically acute to the perils of alienating the oriental Jews, who comprise 35 per cent of the population, the government recently announced its intention to maintain publicly-financed housing at the highest possible level in order that all the

oriental immigrants may be placed in high-standard dwellings. Consequently, no reduction in this important area of expenditure is foreseeable in the near future.

Economics vs. Ideology

Thus it can be convincingly argued that the most important single cause of Israel's economic difficulties is the set of ideological assumptions which appear to underlie the economy itself. These assumptions were made plain by Prime Minister Ben-Gurion in an election speech in 1959. Ben-Gurion declared that the Israeli version of a Socialist, welfare state would make it possible to increase rapidly general living standards, absorb continued mass immigration, foster large-scale economic development (including spectacular projects like steel mills, chemical plants and large-scale irrigation) and maintain high levels of defense expenditures all at one and the same time. Warnings by economists against the misuse of limited resources, the building of industrial plants which are valuable mainly for their "demonstration effect," and a too-rapid increase in living standards were brushed aside.

The ordinary government reaction to such warnings was: "If we had stopped to consider the dangers you point out, we would never have dared to undertake our war of independence." This viewpoint is a rather curious blend of traditional Hebrew Messianism—the optimism beyond despair which sustained the Jews during apparently hopeless periods of their long history—and the enthusiasm resulting from Israel's many genuine successes in the past ten years. Consequently, Israel's political leaders clearly resemble Charles Dickens' Mr. Micawber as they face the future equipped with the belief that more miracles will "turn up" and that Israel will thus be saved from the otherwise nearly inevitable results of her economic indiscretions.

It is a textbook axiom that sustained economic progress in underdeveloped countries such as Israel can take place either through the use of domestic savings or by relying on foreign capital. In view of the anticipated decline in the amount of foreign funds available in the next few years, the adoption of a comprehensive economic policy designed to bridge the gap in the balance of payments be-

comes imperative. Here the experience of Israel's neighbors, Greece and Turkey, is instructive. In the early 1950's both of these over-eager, under-developed countries found it necessary to undergo a painful deflationary cure for their economic ill-health which, as is true in Israel's case, was caused by inflation, over-valued currency, misdirected capital investment, too-high domestic consumption and a chronic balance of payments deficit. The Greek cure succeeded; Turkey's, still in progress, appears to be going well. Both countries were able to undergo the cure thanks to heavy foreign aid given on the condition that necessary economic reforms were undertaken. Their experience proved, however, that the effect of such a cure on the general economy is painful and in some sectors agonizing. Immediate results in both cases were declining living standards, busi-

ness losses and bankruptcies, all suffered before economic health was restored and incomes began their slow climb upwards.

In the long run the reforms accomplished in Greece and Turkey seem certain to result in reasonably higher and maintainable standards of living for both countries. This would appear to be in store for Israel also if she can find the necessary courage to commit herself to the needed policy of stringent economic reform. That this kind of courage is present in Israel's national character, few observers would deny. What is needed, then, as Israel drifts dangerously in the direction of extreme economic difficulty, is political leadership of the highest order. Consequently during the next few years, when policies must be formed and hard decisions made, the question of Israel's economic survival may be answered, for better or for worse.

"Are we a somewhat satisfied nation, believing that national strength is plenty of consumer goods rather than the product of great principles and convictions? We have no real dialogue about our defense posture in rockets and missiles. This is at a time when many of the new nations, seeing Communist Russia and Red China advancing so rapidly industrially, are wondering if all the ruthlessness and tyranny of totalitarian communism may not be worth it if to abandon forms of representative government means they, too, may quickly attain economic progress.

"Our national politics, too, have become an act of togetherness. The men most honored in the Senate are not the great debaters and orators, but those who produce the compromises. . . .

"Both parties have dodged an honest national dialogue on the subject of simple, legitimate civil rights. Both parties have indulged in mutual togetherness and an almost incredible unwillingness to face the facts and to see the gulf which must be closed between the technical and social sciences of our time.

" . . . This raises the question of who, or what groups, in any society can conduct a dialogue. It must be, of course, those on each side of a question who have a sense of the vital role of communications, who are more interested in building bridges of communications than in destroying them.

"The greatest failure to join in the dialogue has, it seems to me, been on the part of all that is wrapped in the world business.

"We of late have had a great deal of talk about business men getting into politics. . . . But from the beginning they have revealed a fatal flaw in their image of what getting into politics means. They have had the narrow one of merely electing someone they thought would best represent them locally.

"Getting into politics means much more than that. Politics demands a public philosophy. This is basic.

" . . . Let us repeat—getting into politics requires a mature public philosophy if the political system is to be backed by a healthy public opinion."

—Ralph McGill, editor of *Atlantic Constitution*, Atlanta, Georgia, in an address delivered in New York City, February 12, 1960, on *The Meaning of Lincoln Today, Idea of a National Dialogue a Critical One Then and Now*.

This discussion of Iran's budget and its industrial and agricultural progress sums up the achievements of the Shah's development program. The author warns that in countries like Iran, where economic change or agrarian reform cause dissatisfaction, dissident groups may retaliate politically by either "coup or revolution."

Political and Economic Balance in Iran

By ROBERT J. PRANGER

*Woodrow Wilson Fellow in Political Science,
University of California at Berkeley*

ECONOMIC progress in Iran depends upon political leadership and administrative organization in seven major problem areas: (1) the national budget, (2) foreign trade, (3) industrial development, (4) the Seven Year Plan Organization, (5) agrarian reform, (6) social services and the cost of living, and (7) oil agreements. We shall examine here the budget, industrial development, and agrarian reform, probably the three most crucial sectors in Iran's present economy. The Plan Organization will be mentioned throughout the discussion, because the course of Iran's economic development in the next decades will undoubtedly follow the economic and political fortunes of that institution.

The latest published Budget Act, for the Iranian year 1338 (March 20, 1959 to March 20, 1960), shows an estimated total revenue of 64,158,755,080 Rials, of which 29,071,426,000 will be derived from ordinary sources, and the remainder from statutory corporations, the Plan Organization, and the National Iranian Oil Company. Total expenditures will be about one billion Rials higher than receipts.¹ The 16 statutory corporations will yield 12,893,772,648 Rials and spend as much. The Plan Organization

receives all its spending funds from oil royalties (9,750,000,000 Rials in 1959-1960) and from new borrowing. Its expenditures are channeled through projects and dependent corporations. Since February, 1959, such outlays have been controlled by the prime minister.² The National Iranian Oil Company plans to receive 8,296,677,000 Rials and spend the same. Since 1958-1959, the published budgetary act has shown not only ordinary departmental revenues and expenditures, but the financing of the Plan Organization as well, ostensibly an important forward step in fiscal accountability.

Budgetary trends from the year 1956-1957 to the present are interesting.³ National defense, as might be expected, has taken a large portion of expenditures. There has also been a major increase in the money allotted social services over the past five years. For instance, in 1956-1957 the Ministry of Health expended just over 500 million Rials; in 1959-1960 its total was 1,066,252,612 Rials. In both 1958-1959 and 1959-1960, the Faculty of Medicine, hospitals, and Teheran University received large sums to

Robert J. Pranger specializes in political theory and comparative government. He spent the summer of 1958 at the Brookings Institute in Washington, D.C., doing research in American government and politics.

¹ Bank Mellî Iran, *Bulletin*, No. 206-207 (May-June, 1959), pp. 583-593. The "Bank Mellî" is the Iranian National Bank. It was established in 1927.

² On February 15, 1959, the Iranian Majlis passed a bill transferring all the Plan Director's powers to the prime minister, thus destroying the autonomy of the Plan Organization. As a result of this the Director, Abol Hassan Ebtehaj, resigned.

³ All figures are derived from Bank Mellî Iran monthly bulletins.

cover their expenditures. Provision was also made in the latest budget for a badly needed salary increase in the civil service and for health and accident insurance for the same group. Another interesting development was large expenditure for the Ministry of Agriculture in both the 1958-1959 and 1959-1960 fiscal years.

All revenues, with exception of receipts from the sale of denatured alcohol, have increased. An especially large increase has come in the government's share of oil receipts, reflecting the greater sales of Iranian petroleum products in both 1959 and 1960. Iran's oil production is finally on its feet after the debacle of nationalization during the Mosaddeq regime. Added to this natural recovery are new agreements with oil companies previously absent from the economic picture, such as the Italian governmental concern of Agip Mineraria, the American firm of Pan-American Petroleum (Standard Oil of Indiana subsidiary), and the Canadian corporation, Sapphire Petroleum, Ltd. These agreements, more generous than any previously existing in the Middle East, were signed in 1957 and 1958. In 1957 oil accounted for 51 per cent of Iran's total state receipts.⁴

Since the Plan Organization has been designated to receive 60 per cent of the total oil income until March, 1958, and 75 to 80 per cent thereafter, development projects will have plenty of funds, although some money from petroleum production is also channeled into ordinary government departments. Thus, the 1959-1960 budget earmarked 5,600,000,000 Rials from oil-marketing proceeds, as well as 1,789,313,000 Rials from oil royalties for the Plan Organization. But regular government revenues (to be used for ordinary expenditures) showed 7,725,000,000 Rials from "oil receipts" in 1959-1960, contrasted with only 2,025,000,000 Rials the previous year. This new input of oil receipts into ordinary public expenditures indicates: (1) increased petroleum revenues, and (2) greater realization by Iranian officials that the inevitable budget deficits of recent years can only be combatted by using more funds from oil production receipts for regular departmental expenses.

Iran's outstanding budgetary problem has been a constant deficit since 1954, brought on

largely by decreased oil revenues. Today, Iran is back among the three top oil-producing states in the Middle East, yet the deficit still threatens. This is due primarily to the large number of under-paid civil servants on the public payroll who between them absorb as much as four-fifths of the budget. From 1954 to 1957 the deficit averaged about 35 per cent and was largely met with United States aid. Various steps have been taken to increase revenue and to decrease expenditures, but the most obvious solution appears to be that of covering even more regular governmental expenses with oil income. There is yet a more fundamental problem that must be solved, and the solution is political. In the words of one survey:⁵

Government leaders and foreign advisers in Teheran seem generally agreed that to escape from her fiscal predicament, Iran must make major changes in her machinery of public administration. In part this means an overhaul of the tax collection and accounting systems. But equally it means providing the government with the administrative equipment needed to execute Iran's ambitious development programs upon which her fiscal stability will ultimately depend.

Industrial Development

The growth of modern industry in Iran is as much a political problem as is the national budget. In fact, both are linked under the single necessity for strong public leadership. The Iranian government is giving vigorous support to the development of increased industrial capacity for Iran. Such encouragement is given in a number of ways, among which are included: (1) legal support for capital investment, especially for innovating entrepreneurs in modern industry; (2) the founding of industries by the state with the possibility of turning them over to private capital; (3) the establishment of public institutions for banking and credit; (4) the encouragement of foreign investment and technical aid; (5) the building of projects by the state, such as electric plants, railways, roads, and telecommunication facilities; (6) the expansion of executive industries; and (7) the spread of literacy and

⁴ George Lenczowski, *Oil and State in the Middle East* (Ithaca, N.Y.: Cornell University Press, 1960), p. 39.

⁵ Herbert H. Vreeland, ed., *Iran* (New Haven: Human Relations Area Files, 1957), p. 145.

vocational education. All of these means are being utilized to some extent by the Iranian government in an effort to encourage industrial development.

Under the aegis of the Plan Organization, which since February, 1959, has been incorporated into regular governmental departments, the Iranian government has set up a number of dependent corporations, the largest of which are the Sugar Mills, Iran Textile, and Cotton Cultivation and Improvement Corporations. In 1959-1960 alone the dependent corporations will earn an estimated 4,096,670,242 Rials, over \$54 million.⁶ Many of these may eventually be turned over to private control, because Article 19 of the Second Seven Year Plan Act of 1956 provides that the government may sell "all or part of the shares of profit-making and productive establishments."⁷

The 1959-1960 budget also listed 16 statutory corporations. These are not under the Plan Organization, but are the responsibility of various government departments much in the same way statutory corporations are managed in Great Britain and elsewhere. The largest of these, in terms of income and expenditure, are the Sugar Directorate, Iranian State Railways, Tea Board, and Cereals and Bread Directorate. The railways were publicly-owned as early as the regime of Reza Shah, while a relative newcomer to the list is the Telephone Company of Iran, nationalized in 1955.

As yet, industrial development is small, but the encouragement of industry and mining is one of four priorities laid down in the Second Seven Year Plan Act. Fifteen per cent of funds available during the seven years ending in 1962 are allotted to this area. According to a recent publication of the British Board of Trade,⁸ Iranian industry suffers from a number of handicaps: (1) weak financial organization and general dissipation of capital; (2) lack of technical education, especially in the management field; (3) an excess of inefficient labor; (4) lack of raw materials; and (5) the newness of most industries. But the Board of Trade is optimistic about industrial development in Iran, once these difficulties are surmounted.

Importance of Transportation

Without proper transportation and com-

munications facilities, Iran cannot hope to attain modernity and rapid industrial growth. Economic history testifies to the vast importance of railroads in the expansion of every national economy which presently boasts of "maturity."⁹ The Iranian State Railways were the work of Reza Shah, and, until 1957, were little extended or improved. Shah Mohammed Reza announced, in his speech to the ninth session of the Iranian Senate on October 6, 1958, that a railroad had been completed between Teheran and Tabriz, and construction of a rail net between Kashan, Yezd and Isfahan had been started. In 1957, Teheran and Meshed were connected by rail. He also noted that numerous bridges had been completed and preparatory work was scheduled on improvement of existing rail lines.¹⁰ Most of the money for new routes comes from Plan Organization funds. Thirty-three per cent of all development expenditures during the period 1955-1962 will be spent on communications, including railroads. These expenditures have top priority in the present seven year development plan.

Another serious effort in the improvement of transportation facilities is taking place in Iran's Persian Gulf ports of Bandar-Shahpur and Khorramshahr. On August 20, 1959, in his speech on the sixth anniversary of the downfall of Mosaddeq, the Shah described the improvement of these two water outlets.¹¹

As was the case with railroads and seaports, Iran's road system was built largely under the rule of Reza Shah. Prior to the Second Seven Year Plan, these roads covered a distance of 25,000 kilometers. But money from the Plan Organization will improve existing roads and construct new ones. Emphasis is also being placed on increased electric power. Present electrical output is extremely low in both industrial and home areas. Kilowatt hour production per capita is only 12, com-

⁶ Bank Melli Iran, *Bulletin*, No. 206-207 (May-June, 1959), p. 592. One Iranian Rial = 1.320 U.S. cents (May, 1959).

⁷ Bank Melli Iran, *Bulletin*, No. 170-171 (May-June, 1956), p. 201.

⁸ United Kingdom, Board of Trade, *Iran* (London: H.M.S.O., August, 1957), pp. 49-50.

⁹ W. W. Rostow, "A Non-Communist Manifesto," *The Economist* CXCII (August 15, 1959), p. 412.

¹⁰ *Oriente Moderno* (Rome) XXXVIII, Nr. 10 (Oct., 1958), p. 824.

¹¹ *Oriente Moderno* XXXIX, Nr. 8-9 (August-Sept., 1959), p. 631.

pared with 32 in Turkey, 64 in Lebanon, and 1,925 in the United States.¹² In 1957 most cities were without electricity and even in Teheran home service was often cut during the day. Through the Plan Organization the government is seeking a progressive increase in electrical energy for industrial purposes.

By a series of legislative steps designed to promote industry, the government is seeking to insure a favorable climate for capital investment in modern industrial development. Traditionally, Iranian capital has not been invested in industry. New laws and regulations are usually promotions and protections of domestic and foreign investment and production. In 1956 the Bank Etebarat Sanoati (Industrial Credit Bank) was established, with "a view to encouraging private investors to form industrial and mining companies and to develop and equip such institutions."¹³ The Bank was originally capitalized at 600 million Rials and could extend many forms of assistance, including credits and loans to private investors.

In a move to centralize and coordinate Iran's economic affairs, the Higher Economic Council was established by regulation in May, 1956.¹⁴ According to regulation number one:

With a view to centralizing the country's economic affairs, adopting an integrated economic policy and ensuring the collaboration between the various organs in charge of said policy, a Higher Economic Council is hereby formed.

The Council consists of eight members, most of whom are ministers in the regular government. Its powers are advisory and coordinative, and for these purposes it has a "sufficient number" of advisers and a secretariat.

The Shah noted in his August 20, 1959, speech that the number of factories in Iran had increased from 3,000 units in 1953 to 10,000 in 1958; in the course of 1958-1959 alone 394 new industrial centers were established. During the last two years (1957-1959), the Shah continued, the state had invested around 15 million Rials in planning industrial development, an amount which equaled all the funds invested in this same field in the preceding 50 years. The same thing could be said in the area of minerals.¹⁵ Obviously, the present ruler of Iran is deeply interested in industrial development and is

vigorously pushing such expansion. He has not been the only individual encouraging and guiding the modernization of Iran. Abol Hassan Ebtehaj, the former able director of the Plan Organization, was very instrumental in whatever successes development plans have enjoyed during the last five years. He was actively supported by the Shah. But Ebtehaj was, by the nature of his position, a conspicuous public figure on whom many animosities focused; he was finally forced to resign in early 1959.¹⁶

Interplay of Politics and Economics

Industrial development illustrates the inevitable interplay of economics and politics in Iran. Being leaders of their nation's economy, both the Shah and the Plan Director are also among Iran's political élite. As such they constantly face public pressures. Because he occupied a strategic political position, no amount of enlightened economic planning could save Ebtehaj from criticism and jealousy. The same holds for the Shah, only in a much more serious way, because he is chief of state. There is, in the general political atmosphere of Iran, a persistently negative critical attitude on the part of many. As a result "there has been little growth in public confidence."¹⁷ And, of course, there have been good grounds for many complaints of corruption, inefficiency, unfairness, and waste. The Shah, by personally identifying himself with the real or imagined successes and failures of economic development in Iran, occupies a position of "an individual open to criticism and judgment."¹⁸ The Shah's role, as envisaged by the "Supplementary Fundamental Laws" of October 7, 1907 (amended December 12, 1925), was that of a king exempt from responsibility, but with a responsible Cabinet, much like the monarch in Great Britain.¹⁹ But the late Harold Laski noted that the British mon-

¹² Vreeland, *op. cit.*, p. 231.

¹³ Bank Melli Iran, *Bulletin*, No. 174 (September, 1956).

¹⁴ Bank Melli Iran, *Bulletin*, No. 170-171 (May-June, 1956), p. 343.

¹⁵ *Oriente Moderno XXXIX*, Nr. 8-9 (August-Sept., 1959), pp. 630-631.

¹⁶ Lenczowski, *op. cit.*, pp. 59-60.

¹⁷ Donald N. Wilber, *Iran—Oasis of Stability in Middle East?* (New York: Foreign Policy Assoc. Headline Series No. 137, Sept.-Oct., 1959), p. 21.

¹⁸ *Ibid.*, p. 21.

¹⁹ Article 44 of the "Supplementary Fundamental Laws" (1907) in Helen Miller Davis, *Constitutions, Electoral Laws, Treaties of the Near and Middle East* (Durham, N.C.: Duke University Press, 1953), p. 123.

archy was influential so long as it was not powerful: "An active King, whose opinions were a matter of public concern, is unthinkable within the framework of the British constitution."²⁰ The present Shah dominates Iranian economic and political life in a way that places him directly in the center of the swirl of Iranian politics.

As the case of Ebtehaj demonstrates, personal success in the economic field is no guarantee of political triumph. On the contrary, in the Middle East—as evidenced by the demise of King Faisal II and his chief minister, Nuri as-Said—sometimes the surest portent of political failure is some form of success in the economic field. Politics and economics are so closely intertwined in transition countries, because of extensive and necessary state intervention in the economic sphere, that they cannot be factored into any neat system; instead they sometimes react wildly in relation to each other. To be even moderately triumphant in any economic area means to be victorious at the expense of some powerful group or groups, who then retaliate in the political arena. This is true in every country.

The fundamentally unsettled state of Middle Eastern politics offers possibilities for coup or revolution by persons dissatisfied with current economic conditions and jealous of those in power. Both Iran and Iraq are recipients of vast amounts of oil revenues channeled into ambitious and modern development plans located in intrinsically unstable political environments. In such situations economic success does not necessarily equal political victory, but sometimes the opposite—a kind of Boyle's Law applied to political economics.

Agrarian Reform

Concomitant with industrial development must come modernization in the agrarian sector of the economy. Iran is still primarily an agricultural nation, with more than three-quarters of its population living off the land. In contrast, only two per cent of its people are employed in industry, and half of them are engaged in carpet making, handloom weaving, and other occupations which are mainly home crafts. Agriculture is faced with profound natural problems such as lack of water, erosion and salinity. Added to these

are the human factors of inequitable distribution of land ownership, nomadic depredations, primitive methods and implements, and poor sanitation. More important, tradition's heavy hand is everywhere. So far, progress toward modernization of the agrarian sector has been slight, despite government reforms and subsidies and the presence of foreign agricultural advisers.²¹

Iran's land area totals 163 million hectares. Of this, in 1953, an estimated 5.5 million hectares were under cultivation and approximately 12 million hectares were fallow land. Potentially cultivable land may amount to 33 million hectares.²² The greater part of the country is situated on a plateau that varies from 3,000 to 5,000 feet in elevation and has an arid or semi-arid climate. Only in the valleys of the Elburz and Zagros mountains and along the Caspian littoral is there always an adequate supply of fresh water. The system of land tenure has remained unchanged for generations. In some respects it is feudal; its rigidity adversely affects agricultural development. About one-half of all land belongs to comparatively few proprietors, one-quarter to religious and charitable endowments, one-tenth is crown or state land, and the remainder (generally in the more remote and less fertile parts of the country) is owned by peasant proprietors.²³ It is in the crown and state lands that redistribution is being carried out. By tradition the produce of private land is divided into five essential elements: land, water, seed, labor and draught animal. The landowner may well possess water rights and provide seed, in return for three-fifths of the produce.

Agrarian reform is high on the agenda of the Iranian government. The Seven Year Plan Law of 1956 allots 26 per cent of its proposed \$936 million expenditures to agriculture. This allotment includes irrigation and dam construction, forest conservation and planting, loans for *qanats* and deep wells, animal husbandry and protection

²⁰ Harold J. Laski, *Parliamentary Government in England* (New York: The Viking Press, 1947), p. 333.

²¹ Vreeland, *op. cit.*, p. 135.

²² United Nations, *Economic Developments in the Middle East, 1952-53*; United Kingdom, Board of Trade, *op. cit.*, p. 42.

²³ United Kingdom, Board of Trade, *op. cit.*, p. 42. Cultivated land presents another picture. In 1955 80 per cent was owned by large owners, five to six per cent by small proprietors, ten per cent by religious and charitable foundations and 3.5 to four per cent by the state. Hassan Djourabchi, *La structure économique de l'Iran* (Genève: Librairie E. Droz, 1955), pp. 22-23.

against plant pests.²⁴ Under the Cotton Development Company of the Plan Organization cotton production has increased from 30,000 metric tons in the Iranian year 1328 (1949-1950, the year the Company was established) to 70,000 metric tons in 1334 (1955-1956).²⁵ Furthermore, Iran's two most spectacular assaults on its agricultural backwardness are its land reform program and the much-talked-about Khuzistan development scheme.

Land reform measures in Iran have been directed toward improving conditions for farm tenants. In 1950, the Shah signed a decree providing for distribution of some of the crown lands (*Amlak*) to farmers against payment on long-term installments of 25 years, with annual payments less than the farmer's rent. According to the Shah in his speech of August 20, 1959, the distribution of imperial land would be completed in two years. Also, the distribution of state lands (*Khaliseh*), authorized by law in December, 1955, was initiated in 1958 and should be completed by 1962.²⁶ As of August, 1957, about 120,000 hectares of crown land had been distributed among 8,500 families. The ultimate aim is land for 100,000 families, but progress is bound to be slow. Projects have so far been successful and the income of some new owners has increased several times.²⁷ An Agricultural Development Bank helps new owners with loans and assists in the development of cooperatives.

Landlordism Reformed

Accompanying changes in land ownership have been some reforms in the share of revenue a landlord may derive from his land. In October, 1952, a government decree laid down that the landlord's share of the revenues from his land should be reduced 20 per cent and this amount was then to be shared between the tenant and a village development fund. This decree was superseded in July, 1956, by a new village council law which set up the village council as a legal entity and provided that five per cent of the landlord's revenue should be paid over to such a council. This is a mandatory payment. The money is to be used for improvement of communications, health and education facilities in the villages. A Community

Development Department was established in 1953 under the Ministry of Interior in order to apply village council laws. There has been substantial foreign aid (and interest) in this program. By July, 1956, councils had been organized in three-fourths of Iran's villages.²⁸

The most formidable of Iran's agricultural projects is the Khuzistan development scheme, an attempt to revive the Khuzistan valley, which 25 centuries ago was the center of Achaemenid civilization. It is the largest fertile valley in Iran, with an area of 58,000 square miles. Khuzistan is irrigated by the Karun River and its tributaries. Agreement for a long term program of economic development of the region was reached in March, 1956, between the Iranian Plan Organization and the Development and Resources Corporation of New York, the latter company founded in 1955 by David E. Lilienthal, Gordon Clapp (both formerly of T.V.A.), and the investment house of Lazard Frères & Company of New York. Estimates by United Nations and Development and Resources Corporation experts indicate that a system of dams at the headwaters of the region's river system will some day permit irrigation of about 4,000 square miles of the Khuzistan plain. These dams will be multi-purpose, providing, besides irrigation, flood control and electricity. A major obstacle to development in Khuzistan is the salinity of the soil there.²⁹

In agrarian reforms, as in the national budget and industrial development, the ultimate questions may well be political. So far, the future of land reform has been largely determined by the personal interest and intervention of the Shah. But the government now plans to introduce in the Majlis a bill limiting individual land-holdings to 600 acres.³⁰ There has never been such legislation in Iran, and such a measure is bound to

²⁴ Bank Melli Iran, *Bulletin*, No. 170-171 (May-June, 1956).

²⁵ Bank Melli Iran, *Bulletin*, No. 182-183 (May-June, 1957), p. 167.

²⁶ *Oriente Moderno* XXXIX, Nr. 8-9 (August-Sept., 1959), p. 632.

²⁷ United Kingdom, Board of Trade, *op. cit.*, pp. 43-44.

²⁸ *Ibid.*, p. 44.

²⁹ For further information on this project see Gordon Clapp, "Iran: T.V.A. for Khuzistan Region," *Middle East Journal*, XII (Winter, 1957); David E. Lilienthal, "Enterprise in Iran," *Foreign Affairs*, XXXVIII (October, 1959), pp. 132-139.

³⁰ Wilber, *op. cit.*, pp. 51-52.

arouse animosities. Also, there are administrative and political problems seemingly peripheral to land distribution, but actually vital to its success, such as a number of government services in education, credit and the development of cooperatives.³¹

There is no utility in providing more land for more people, and then failing to provide the necessary social and political conditions for use of that land. Again, as the case of pre-1958 Iraq demonstrates, the proper socio-political environment for wide land ownership and other economic advances means widespread change in the power structure of a transitional society. For extension of education, credit, and the development of co-

operatives, together with greater independence from moneylenders and other well-established groups, spells change in the traditional social structure. The three areas of sound budgeting, industrial development, and agrarian reform are, therefore, more than merely isolated sectors of "progress" in Iran's otherwise traditional society. Rather, they have a "multiplier effect," which is not limited to purely economic considerations, but spreads—often like a prairie fire—to political and social areas where "change" is no longer "evolution" or "reform," but "revolution."

³¹ Vreeland, *op. cit.*, p. 201.

"Hundreds of millions of people throughout the world have learned that it is not ordained that they must live in perpetual poverty and illness, on the ragged edge of starvation. Their political leaders press the point home. In a variety of ways this drive is moving forward by fits and starts, often uncertain of its direction. It is sometimes involved in free world struggle against communism, sometimes not. It is clearly in the interests of the United States that we assist this movement so that these countries may take their places as free, independent, progressing and stable members of the community of nations. It is equally clear that it would be against our interests if this forward movement were stifled or hindered. The result would be to breed frustration. . . .

"Equally with military security, economic development is a common necessity, and a common responsibility. An investment in the development of one part of the free world is an investment in the development of it all. Our welfare, and the welfare of all free men, cannot be divided—we are dependent one on the other. It is for each of us, the strong and the weak, the developed and the less developed, to join in the great effort to bring forth for all men the opportunity for a rewarding existence in freedom and in peace. . . .

"New challenges, with corresponding opportunities, are now visible before us: the acceleration of the achievement of independence of peoples in Africa; the restlessness in the less developed areas; and the increasing potential for partnership and assistance to these areas as a result of the continuous growth of the now healthy economies of the industrialized Western European nations and of Japan, Canada and Australia.

"Free world cooperation is becoming the watchword of this effort. In the last year the capital of the International Bank for Reconstruction and Development was doubled and that of the International Monetary Fund was increased by half. In addition, a United States proposal for an International Development Association to be affiliated with the International Bank for Reconstruction and Development has been accepted in principle and a draft charter recently submitted to member governments. . . . The industrialized nations . . . are notably stepping up their participation in cooperative efforts among themselves and with the less developed countries to promote growth. . . ."

President of the United States Dwight D. Eisenhower, in an address delivered to Congress, February 17, 1960.

In this examination of foreign aid, both Western and Communist, to the Middle East, this author concludes that foreign aid from the United States in particular has "only served to raise false hopes. With its political bias and charitable aspirations it has greatly increased the risk for future revolutions."

Technical and Economic Aid to the Middle East

By JOHN LINDBERG
Author of *The Foundations of Social Survival*

IT IS OFTEN believed that aid to the "under-developed" countries is politically as expedient as it is morally attractive. Experience, however, does not encourage an easy optimism; indeed the Middle East provides a typical example of the limitations and pitfalls of foreign aid as at present conceived and practiced. In order to understand its implications it is desirable to examine, even though briefly, the special situation in which it occurs.

Political Division vs. Economic Unity

When England and France established their hegemony in the Middle East after World War I it proved to be the last great achievement of European colonialism. The

victors from the outset had to contend with awakened Arab nationalism; in order to neutralize it, the primitive, though integrated, system was cut up into a number of new entities. Even after the political climate changed there remained a sediment of native distrust of Western intentions; the fragmentation remained and continued to place obstacles in the way of an organic economic development.

The conquerors established new rulers, armies and administrations and inflated public expenditures in an area really too poor to afford more than the simple rudiments of social superstructures. Around the Western sponsored governments grew vested interests which caused friction and conflict. Today, the Arab League dreams of Arab unity, but actual developments are forced into the existing framework of artificial boundaries.

It is conceivable that the particularisms could have been eliminated by the Arabs themselves if they had been left to their own devices. However, oil interests have rendered the area a focal point in international politics and hardened the particularist structures. While exploitation of oil has given the area the means required for economic development, it has also frustrated and retarded their rational use.

Oil revenues increased sensationaly during the last decade: in 1950 they amounted to about \$200 million, and in 1958 they had reached \$1270 million to which should be added some \$90 million in fees for transit rights. These sums are in addition to the local expenditures of the oil companies. The

Former chief of a U.N. Technical Assistance mission to Libya and U.N. economic adviser to the Government of Jordan, John Lindberg was a member of the Institute of Advanced Studies, Princeton University. For more than 20 years he has been a public service career official on the international level. From 1930 to 1937 he was a Senior Member, Statistical Section of the International Labor Office; he was a member of the Economic, Financial and Transit Department of the League of Nations from 1937 to 1946. He has just published a book in Swedish entitled *Gamble about Arabia*.

region, therefore, has a positive balance of trade; according to the United Nations estimates total exports in 1958 amounted to \$4.9 billion and imports to \$4.0 billion. This poor area exports capital to the rich nations—foremost among them, of course, is the United Kingdom.

Political divisions create this paradox, causing oil revenues to be distributed in a haphazard manner. Some of the smallest, least populous areas, such as Kuwait, receive revenues beyond what they can economically absorb. In spite of overinvestments and wasteful consumption they are "advised" by their British friends to export capital to the London market. Underprivileged areas such as Jordan, dependent on foreign aid not only for development but also for their very existence, receive back in the form of subsidies, grants-in-aid, and loans only a fraction of the capital which the area has exported to the more developed nations. The anti-developmental nature of the system is further illustrated by the manner of payments. Some of the richest prizes are given to local kings and sheiks of minor tribes who consider them as contributions to their privy purse. These means too are withdrawn from economic development and wasted in luxury consumption or worse.

Lagging economic development may be partly explained by waste and misdirection. Sound economic growth presupposes an integrated economic approach to the problems of the area. In the absence of an over-all answer, it stands to reason that foreign aid to the separate entities will be in the nature of palliatives.

Foreign Aid and Development

Foreign aid to the region has been and is small, hesitant and unsystematic. The United Nations estimates that total unilateral and multilateral grants-in-aid, subsidies and loans for the period 1954-1957 on a per capita basis amounted to \$1.90 in Iraq; \$3.10 in Syria; \$14.10 in Iran; \$14.60 in Lebanon; and \$36.30 in Jordan. The figure for Jordan, however, is not strictly comparable as it includes assistance to the Palestinian refugees. It may be mentioned that foreign aid to Israel for the same period was \$94.90 per capita. Contributions on the scale given to the Arabs

are obviously symbolic and economic growth has remained alarmingly slow.

A primary increase in agricultural productivity is basic for sound development. The Arabs are trying to increase it. One could mention several projects of land reform, the breaking up of the large estates and redistribution of land. These projects are not likely to promote immediate efficiency and it is still too early to evaluate their ultimate effects. So far, tangible results seem to have been attained mainly by better methods of cultivation and, in practice, a more liberal use of chemical fertilizers, developments which hardly required foreign assistance. It has been estimated, however, that agricultural production in the area may increase in the order of magnitude of some three to four per cent a year.

In order to stabilize yield and permanently to increase output one has to depend on irrigation, for which technical and economic assistance is especially needed. Iran has the natural conditions and the means required for expansion of irrigation. The Iraqi Development Board has also produced several reports and projects but little of practical value has been accomplished. Another even more publicized project is that of the Jordan River. There have been numerous reports and surveys, but again no action. The third large project is the Aswan Dam—the single most important project in the whole region. It was encouraged by the West, but the promise of aid was later withdrawn. The project has since been resumed with Russian aid.

Industrial production is still so low that even high figures of percentage growth often mean little. Thus, it is reported that industrial employment in Jordan increased by some 65 per cent between 1954 and 1958; in absolute terms the increase is only five thousand persons. The most significant developments occurred in the United Arab Republic. The material industrial production in Egypt is said to increase by some six per cent a year. The five-year plan of 1957 has been formulated to provide for an investment of £E250 million of which £E66 million is provided by Russia and £E46 million by West German credits. The Iran Plan Organization has still to prove its worth; it is constructing cement and fertilizer plants and some textile

millions. In Iraq the famous Planning Board, originally under British tutors, has produced chiefly discord and delays. Hence, (except for Israel and Turkey) foreign aid to this region has been so small and erratic that it has been unable to affect economic development. Unfortunately, however, this does not mean it has had no effects. In order to understand what is occurring we first must consider the relationship between social change and economic development.

Foreign Aid and Social Change

Whatever interpretation one gives social "progress," it demands a growing income per head both as means and end. If we commit ourselves to economic "progress," we are committed to promote the growth of income at a rate faster than that of population. The West faced this agonizing question of social priorities during its own Industrial Revolution. The classical economists, especially Malthus and Ricardo, conceived a free market economy that automatically would maximize non-labor income (in the last instance land rents) out of which savings were supposed to flow. Wages and thus popular consumption became residual in character; and as the workers already lived at the minimum of existence, fluctuations in wages translated themselves into fluctuations in population, which became a dependent variable subordinate to the "need" for economic growth. Ricardo frankly stated that the absolute number of workers in a land is a matter of indifference. For once, theory and practice were in agreement.

The Industrial Revolution, particularly in Great Britain, became a brutal affair. Landlords and capitalists grew rich, insensitive and arrogant; the workers sank into a state of sordid insecurity and destitution. Savings grew and with them the national income, but poverty maintained the death rates on a high level and braked premature population increase. There established itself a "normal" rate of economic growth—about three per cent a year—while population growth rarely exceeded one per cent or one and a half per cent. The gap between these rates reflected, of course, the scope for economic development.

As economic development began to result

in substantially increased output per man, the situation changed; the most radical innovations occur after the fall in popular birth rates. Without fundamentally upsetting the relation between growth of population and growth of income, one could gradually afford higher wages and standards of living. The fear of over-population disappeared and one accepted population growth (at any rate, if high enough) as unaffected by economic determinants; it became an independent variable in the social equation. The harsh dogma of classical economics was finally replaced by the soft suppositions of welfare economics.

It is one of the ironies of history that when the Western nations now try to push the "underdeveloped" countries through the narrow gate of Industrial Revolution, they try to apply the later concepts of welfare economics. The idea of population as an independent function has assumed a semi-sacred nature; the "savings of life" and a reduction of the death rate are always and everywhere considered as good in themselves; a primary task, therefore, appears to be to aid the "underdeveloped" nations to buy a packet system of death control, a system that was developed gradually and piecemeal in Europe by the slow process of trial and error. Death rates respond initially to these methods even if the standard of living remains unchanged and in many cases falls. Mortality actually declines faster than it did in Europe. In spite of an energetic burst of talk about the need for birth control, birth rates have not yet responded. Nor is there any reason to assume that they will decline any faster than they did in Europe. We seem to have entered the initial stage of a population explosion unparalleled in scope and violence.

In spite of the absence of reliable statistics, one may assume that population increase now approaches or exceeds the critical three per cent a year level; it is more than doubtful whether income increases as fast, or whether it long will prove possible to maintain present beggarly standards of living; we seem rather to be wasting income and substance on a mere quantitative expansion. But an abortive population explosion represents under modern conditions a frightening prospect.

Poverty is patiently supported in a static society; but the traditional static order of the Middle East has been shattered by Western

penetration, which as usual acts like a poison in the social body. It has destroyed the old poise as well as meaning and security. Old habits and beliefs are discredited, have lost their authority and disintegrated. But the Europeans—soldiers, policemen, governors, jailers, administrators, engineers, businessmen and missionaries now augmented by tourists and technical assistance experts—have with notable exceptions in actuality propagated hedonism, naive rationalism and materialism, and submissive respect for wealth, power and success. They have not implanted positive ethics relevant to the needs of the local peoples.

Consequently, the local reaction became virulent in proportion to the progress of disintegration. The only force which, to start with, was powerful enough to act as a counterforce was what we call "excessive" nationalism. No integrating movement of importance could succeed in opposing it. It is in its marriage to nationalism that the demand for social "progress" and "justice" became a dominant acting force in social development. The groups most intimately connected with national and social affairs—in spite of the offensive arrogance which they have met from Europeans—were originally inspired by late nineteenth century ideals and naively looked for equality and collaboration with Western democracies.

It would be unrealistic, however, to depend on the unlimited validity of such commitments. Democracy is here an invader on alien soil that stands or falls on its own criteria of success. If the democracies continue to oppose economic integration, if they are unable to brake the incipient population explosion, if they are unable or unwilling to stimulate ever greater investments, is it not inevitable that the resulting disappointments and misery will cause violent revulsions of feeling?

With its dated optimism and superficial economic insights, technical assistance has more than most agencies served to raise false hopes. With its political bias and charitable aspirations it has greatly increased the risk for future revolutions. Coming events cast their shadows ahead, and it is impossible not to note the increasing prestige and influence of communism. The 1950's witnessed an amazing penetration of this movement into

the playground previously reserved for Western interests. The Russian advance has been aided by the increase in Russian power and the bitter memories of European colonialism; but the single greatest service that the West has rendered Russia was the sudden withdrawal of aid to the cherished Aswan Dam project. Frequent political bias in the granting and administration of other aid—even when entrusted to international organs—has served the same purpose.

One may argue that these are innocent errors of tactics and psychology. Unfortunately, they are not, in the last analysis, the fundamental reason for the Russian advance. As the welfare approach to economic development falls into discredit, national leaders are not likely to cease striving for social justice and economic betterment; they are likely to change methods and myths—the only practical alternative in fact being the Communist one. In facing this very real possibility, it must be admitted that it is the Russians who have the simpler, cruder and more efficient developmental philosophy. Indeed, they have retained our own classical theory with slight modification. The classicists trusted the free market to maximize savings—investments—and economic growth, and thus to contain population growth. The Communists (Marx was a pupil of Ricardo) trust the state to do exactly the same.

The West now disapproves, and possibly rightly so, the cruelty and callousness involved in this process. It cannot very well advise its friends to adopt procedures which it morally abhors. But how about the "underdeveloped" nations themselves, whose fate is most immediately at stake?

The élite of the "underdeveloped" nations are as intelligent, far-sighted and well-informed as our own luminaries. They are also, on the whole, more disillusioned and realistic. They have long training in facing unpleasant facts and are, by and large, less surprised than we are at the rediscovery that "progress" has a price, and that life is brutal. They are on the whole willing to pay the price that necessity and circumstance exact for economic development. They are faced with the necessity of finding an ideology powerful enough to mobilize the enthusiasm required for economic development. In the East, democracy attracts fellow travelers and

interested sympathizers. Among the intellectual élites, it has lost the power of making converts and servitors. On the other hand, from these groups the Communists gain their most devoted followers. The attraction of the Communist ideology can be deplored but not denied. There is little doubt that if present trends run their course the future of this area will be in the hands of the Communists someday.

A Way Out

What is necessary in order to stem the Communist tide in the East? Even if there were a way out, it is hardly likely that we should follow it: it involves risks and a change of cherished habits of thought and fashionable myths. However, I state here what I consider as the minimal conditions for a constructive approach.

(1) The time has come, or is, in fact, long overdue, for implementing the several United Nations resolutions calling for a humane and just solution of the Arab refugee problem. Without such a solution political tensions and conflicts will continue to prevent regional planning and regional integration.

(2) The Western powers, in spite of real dangers and risks, must cease to oppose the economic and political integration of the region; they cannot dictate and must leave the solution to the peoples directly concerned. They could help, however, by assisting in setting up regional instrumentalities, such as

an Arab Development Bank, which could invest Arab money for Arab purposes.

(3) Economic and technical assistance along present lines should be stopped. It should be realized that insufficient aid is worse than no aid and that economic development is incompatible with policies which encourage the growth of population more than the growth of production and income. Population control is more than an object of foreign aid; it should be a condition for it. As it will require time for this insight to break through to the political level, one may meanwhile try to minimize dangers by the form given to foreign assistance.

(4) One should abolish the present free distribution of experts and money and concentrate on what can be termed a banking approach. In fact, this is a tendency already apparent; so far, the most rational economic development program is carried out by the World Bank. The banking approach uses the objective criteria of profitability and capability of repayment, making for cleaner, harder and more efficient policy. It brakes premature population expansion and encourages the desperately needed increase in domestic savings. This approach eliminates social activities not absolutely essential to increased productivity. It realizes that economic development is a hard task where there is a need for understanding and even disinterested goodness, but not for sentimentality and do-goodism.

"As the Soviet and Chinese Communist economies grow, increased economic competition is inevitable. Western businessmen need not be afraid of competition. That in itself is not a dangerous concern. Our country has grown great in the face of competition. But, the Communists link with their economic competition, their program of political subversion. If they can successfully achieve economic inroads in newly developing areas, or even in the larger and more developed Western countries, they have built the foundation for their political subversion.

"... The Sino-Soviet Bloc has not introduced any new or startling economic techniques. The Communists condemn capitalistic techniques of business at home, but they make liberal and skillful use of them abroad in their economic expansion. For example, take commercial credit. Commercial credit was fundamental to the development of our own great country. We are the experts in the field. The Communists are using this device in both their government loans to newly developing countries, and in their institutional loan practices to individuals outside the Bloc."

—General C. P. Cabell, U.S.A.F., Deputy Director of Central Intelligence, in an address delivered October 10, 1958.

Received At Our Desk

THE LONG WAY TO FREEDOM. By JAMES SHOTWELL. (New York: Bobbs-Merrill, 1960. 609 pages and index, \$7.50.)

After a lifetime devoted to historical study and to the search for a way to establish peaceful relations among nations, James Shotwell has in a sense summarized his conclusions in *The Long Way to Freedom*. His basic faith in man, in his intelligence and his sense of justice, leads Dr. Shotwell to believe that "science itself is outlawing war by changing its nature from a controllable instrument of policy to senseless, criminal and universal destruction." As he sees it, "The battle with superstition, war, exploitation and injustice is by no means over. But the promise of ultimate victory already shines before us."

Man's search for freedom is the keynote of this concise world history, beginning with "The Human Animal" in the era "Before History," and following the quest to the present day. As always, Dr. Shotwell writes well, and his study gains cohesion from its theme. His chapters on the League of Nations, the inter-war years and cold war developments are especially rewarding. In conclusion, he calls for "a new law of nations." He cautions the reader not to "confuse freedom with democracy," defining freedom as "the fullness of life for the individual." "Civilization" he declares, "is only just beginning to show the glory and nobility of man in a world in which freedom is another name for justice."

THE EIGHTEENTH-CENTURY COMMONWEALTHMAN. By CAROLINE ROBBINS. (Cambridge: Harvard University Press, 1959. 386 pages, bibliographical commentary, notes and index, \$10.00.)

Subtitled "Studies in the Transmission, Development and Circumstance of English Liberal Thought from the Restoration of

Charles II until the War with the Thirteen Colonies," this volume represents a scholarly examination of some of the earlier English liberal ideas.

The Commonwealthman supported political, social and religious liberty for the individual. Commonwealthmen, or "Whiggish malcontents" as the author calls them, believed in change and progress, if not revolution; in governmental reform, in liberty and equality, ". . . within the terms of their age, their class and their education. . . ."

The Commonwealthman, regrettably, found it more and more difficult to fit his ideas on human liberty into "a world of a growing industrial population." In an interesting aside, the author notes that "Even the success of the Founding Fathers of the United States, themselves profoundly convinced of the validity of the creed of Real Whigs, was very largely due to the fact that for over a century the agrarian population of the New World, settled or nomadic, so much outweighed the urban." However, Professor Robbins, who is chairman of the history department at Bryn Mawr College, conservatively estimates the influence of these English liberal ideas on their own times and their later effect on the American revolution: "No simple answer can be given to the question of what happened between 1660 and 1780 to the progressive or seminal ideas of the English seventeenth century." "The stream of political invention did not entirely dry up between the English and American revolutions, but it ran slowly and partially underground."

Professor Robbins is to be commended for offering the reader a wealth of profound material with skill and clarity. She has interwoven the newly emerging revolutionary ideas with the political fabric of the age. In addition the author gives the reader an insight into the personalities of the men who affirmed human liberty in an

era when change was considered "dangerous if not sacrilegious." This book makes a valuable contribution to an understanding of the philosophical underpinnings of Western democratic government.

A TIME IN ROME. By ELIZABETH BOWEN. (New York: Alfred Knopf, 1960. 242 pages, \$4.00.)

Elizabeth Bowen loves Rome and she writes of the city with grace and a sympathy that transcends the here and now. Neither guide book nor travelogue nor history, this is a long and delicate essay for those who, like Miss Bowen, have already fallen in love with Rome or for those who plan to go there some day. The five chapters can be read separately or as a single unit. The reader will find here much of Rome and much of Elizabeth Bowen.

PUERTO RICO. Land of Wonders. By EARL PARKER HANSON. (New York: Alfred Knopf, 1960. 320 pages and index, \$4.50.)

Earl Hanson first went to Puerto Rico in 1935, as a consultant to the federal Puerto Rico Reconstruction Administration. His first study of the island, *Transformation*, was written in 1955. This new study utilizes some of the earlier historical material and brings up to date the story of Puerto Rico's development as a free commonwealth. Historical, economic and sociological problems of Puerto Rico are sympathetically discussed. Those interested in problems of the American immigrant and those concerned with colonial policies and backward areas will find this volume informative.

THE LOST CITIES OF AFRICA. By BASIL DAVIDSON. (Boston: Atlantic—Little, Brown, 1959. 366 pages with index, \$6.50.)

This fascinating account of the "lost" history of Africa fills in the cultural background of Africa South of the Sahara. African history, lacking the guideposts of a calendar or recorded material, had become lost in legend. From his wide knowledge of Africa, much of which is first-

hand, the author reconstructs the highly-developed civilization and culture that seemed to have disappeared entirely. Hence this book affords a new appreciation of and insight into Africa's past.

THE AMERICAN HERITAGE BOOK OF THE PIONEER SPIRIT. By THE EDITORS OF AMERICAN HERITAGE. (New York: American Heritage Publishing Co., Inc., 1959. Distributed by Simon and Schuster, Inc. Illustrated. 394 pages and index, \$12.95.)

The courage and endurance of the men and women who pioneered in all endeavors of human activity necessary to building our nation have been recorded in this handsome work. Although the book is mainly concerned with the problems of settling the new land, opening up frontiers, exploring the West, it goes on to trace the pioneer theme in producing American inventions from the cotton gin to the safety pin. A study is also made of the pioneer spirit as it colored political life, economic enterprise and scientific research at the turn of the century. The authors have compiled a readable, if saccharine, discussion of the pioneering spirit which became reflected in the national character of the United States.

THE WORLD'S LAST NIGHT. By C. S. LEWIS. (New York: Harcourt, Brace, 1960. 113 pages, \$3.00.)

This small collection of essays by an outstanding British philosopher will be welcomed by his admirers. A new memorandum from "Screwtape" is focused on our political and economic dilemma, as are the chapters on "Good Work and Good Works" and "Religion and Rocketry." Those who look forward to man's conquest of space may ponder C. S. Lewis' warning that, if we meet other sentient creatures, "we shall if we can, commit all the crimes we have already committed against creatures certainly human but differing from us in features and pigmentation; and the starry heavens will become an object to which good men can look up only with feelings of intolerable guilt, agonized pity, and burning shame." All these essays have appeared before in various periodicals.

TO THE GOLDEN DOOR. BY GEORGE POTTER. (Boston: Little, Brown, 1960. 623 pages and index of names, \$6.50.)

This is basically the story of the effect of the Great Famine on the people of Ireland, but the author prefaces his study of the Catholic Irish with a lively account of the Gaelic Irish and their origins "in the mists of prehistory." The late George Potter utilized a Guggenheim Fellowship to travel and to do research on much unpublished source material in Ireland. This material, plus a warm sympathetic interest in the Irish, an eye for detail that makes history live, and a witty style add up to that unusual history book—one that is hard to put down.

IN FRIENDLY CANDOR. BY EDWARD WEEKS. (Boston: Atlantic—Little, Brown, 1959. 291 pages with index, \$4.00.)

This interesting compilation of Edward Weeks' experiences as editor of *The Atlantic* makes entertaining reading. The author regales the reader with his editorial past. His experiences are conveyed with sensitivity and seasoned wit.

Books on Russia

THE REVOLT IN TIBET. BY FRANK MORAES. (New York: The Macmillan Company, 1960. 223 pages, \$3.95.)

Frank Moraes, the editor of the influential *Times of India*, has become the leading interpreter of Indian affairs for the West. In this book, he "deals with the events in Tibet which led finally to the Dalai Lama's flight, and with the relations between China and Tibet." He also draws in the background of Tibetan history, ". . . of the impact made by the Communist aggression in Asia, particularly on India."

He has no illusions concerning the nature of communism, nor the danger which it poses to free nations. "There can be neither compromise nor coexistence with communism. Monolithic in its structure, it represents the resurrection of a brute force which, believing that might is right, would return to the laws of the jungle—trampling on the weak and the helpless,

stamping out the smallest spark of individualism, caring nothing for personal freedom or human honor, respecting neither the dignity of man nor the right of small countries to live their own lives."

In addition to a vivid, detailed account of the Tibetan revolt of March, 1959, Moraes offers several significant observations: the ruthless determination of Peking to intensify its pace of modernization, irrespective of cost or its loss of prestige elsewhere in Asia; the impact of the Tibetan suppression upon Sino-Indian relations; and the pervasive anti-Chinese sentiment found among the minority peoples inhabiting southwestern China.

This book will no doubt have wide circulation in the West. But it would be far better if it received the attention it deserves in India, and particularly among the Asian elites who flirt with communism or who look to communism for the key to industrialization and national power.

ALVIN Z. RUBINSTEIN
University of Pennsylvania

PAN-TURKISM AND ISLAM IN RUSSIA. BY SERGE A. ZENKOVSKY. (Cambridge: Harvard University Press, 1960. 345 pages, bibliography and index, \$6.75.)

Professor Zenkovsky has written an authoritative account of the political and cultural history of the more than 20 million Turkic-speaking people of the Soviet Union, i.e., Tatars, Bashkirs, Kazakhs, Kirghiz, Uzbeks, Turkmenians, Yakuts, Altais, and Tuvas. The "sovietization" process of the past three decades has not succeeded in eradicating all ethnic and cultural differences. The persistence of "localism" remains a perplexing problem for Soviet leaders. This study deals with the national awakening of the Turkic-speaking peoples in the 1905-1920 era.

A work of impressive scholarship, it incorporates "much previously unused source material, such as the Proceedings of the Moslem Congresses of 1906 and 1917, digests of the Turkic press in Russia, and certain Turkic emigre periodicals." This book will surely prove an invaluable source of information on Russian nationality policy.

A.Z.R.

Current Documents

UNITED STATES-JAPANESE SECURITY TREATY, 1960

On January 19, 1960, the United States and Japan signed a Treaty of Mutual Cooperation and Security, in Washington. This treaty replaces the treaty of September 8, 1951, providing for Japanese contributions to United States troop support. The complete text of the new treaty and the agreement on the new status of United States armed forces in Japan that accompanies it are reprinted here in full:

The United States of America and Japan,
Desiring to strengthen the bonds of peace and friendship traditionally existing between them, and to uphold the principles of democracy, individual liberty, and the rule of law,

Desiring further to encourage closer economic cooperation between them and to promote conditions of economic stability and well-being in their countries,

Reaffirming their faith in the purposes and principles of the Charter of the United Nations, and their desire to live in peace with all peoples and all governments,

Recognizing that they have the inherent right of individual or collective self-defense as affirmed in the Charter of the United Nations,

Considering that they have a common concern in the maintenance of international peace and security in the Far East,

Having resolved to conclude a treaty of mutual cooperation and security,

Therefore agree as follows:

ARTICLE I

The Parties undertake, as set forth in the Charter of the United Nations, to settle any international disputes in which they may be involved by peaceful means in such a manner that international peace and security and justice are not endangered and to refrain in their international relations from the threat or use of force against the territorial integrity or political independence of any state, or in any other manner inconsistent with the purposes of the United Nations.

The Parties will endeavor in concert with other peace-loving countries to strengthen the United Nations so that its mission of maintaining international peace and security may be discharged more effectively.

ARTICLE II

The Parties will contribute toward the further development of peaceful and friendly international relations by strengthening their free institutions, by bringing about a better understanding of the principles upon which these institutions are founded, and by promoting conditions of stability and well-being. They will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between them.

ARTICLE III

The Parties, individually and in cooperation with each other, by means of continuous and effective self-help and mutual aid will maintain and develop, subject to their constitutional provisions, their capacities to resist armed attack.

ARTICLE IV

The Parties will consult together from time to time regarding the implementation of this Treaty, and, at the request of either Party, whenever the security of Japan or international peace and security in the Far East is threatened.

ARTICLE V

Each Party recognizes that an armed attack against either Party in the territories under the administration of Japan would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional provisions and processes.

Any such armed attack and all measures taken as a result thereof shall be immediately reported to the Security Council of the United Nations in accordance with the pro-

visions of Article 51 of the Charter. Such measures shall be terminated when the Security Council has taken the measures necessary to restore and maintain international peace and security.

ARTICLE VI

For the purpose of contributing to the security of Japan and the maintenance of international peace and security in the Far East, the United States of America is granted the use by its land, air and naval forces of facilities and areas in Japan.

The use of these facilities and areas as well as the status of United States armed forces in Japan shall be governed by a separate agreement, replacing the Administrative Agreement under Article III of the Security Treaty between the United States of America and Japan, signed at Tokyo on February 28, 1952, as amended¹ and by such other arrangements as may be agreed upon.

ARTICLE VII

This Treaty does not affect and shall not be interpreted as affecting in any way the rights and obligations of the Parties under the Charter of the United Nations or the responsibility of the United Nations for the maintenance of international peace and security.

ARTICLE VIII

This Treaty shall be ratified by the United States of America and Japan in accordance with their respective constitutional processes and will enter into force on the date on which the instruments of ratification thereof have been exchanged by them in Tokyo.

ARTICLE IX

The Security Treaty between the United States of America and Japan² signed at the city of San Francisco on September 8, 1951 shall expire upon the entering into force of this Treaty.

ARTICLE X

This Treaty shall remain in force until in the opinion of the Governments of the United States of America and Japan there shall come into force such United Nations arrangements as will satisfactorily provide for the maintenance of international peace and security in the Japan area.

However, after the Treaty has been in force for ten years, either Party may give notice to the other Party of its intention to terminate the Treaty, in which case the Treaty shall terminate one year after such notice has been given.

IN WITNESS WHEREOF the undersigned Plenipotentiaries have signed this Treaty.

DONE in duplicate at Washington in the English and Japanese languages, both equally authentic, this 19th day of January, 1960.

For the United States of America:

CHRISTIAN A. HERTER
DOUGLAS MACARTHUR 2ND
J. GRAHAM PARSONS

For Japan:

NOBU SUKE KISHI
AIICHIRO FUJIYAMA
MITSUJIRO ISHII
TADASHI ADACHI
KOICHIRO ASAKAI

Agreed Minute to the Treaty of Mutual Cooperation and Security

Japanese Plenipotentiary:

While the question of the status of the islands administered by the United States under Article 3 of the Treaty of Peace with Japan³ has not been made a subject of discussion in the course of treaty negotiations, I would like to emphasize the strong concern of the Government and people of Japan for the safety of the people of these islands since Japan possesses residual sovereignty over these islands. If an armed attack occurs or is threatened against these islands, the two countries will of course consult together closely under Article IV of the Treaty of Mutual Cooperation and Security. In the event of an armed attack, it is the intention of the Government of Japan to explore with the United States measures which it might be able to take for the welfare of the islanders.

United States Plenipotentiary:

In the event of an armed attack against

¹ Treaties and Other International Acts Series 2492 and 2848; for text of treaty and protocol, see *STATE DEPARTMENT BULLETIN* of March 10, 1952, p. 382, and November 2, 1953, p. 595.

² TIAS 2491; for text, see *BULLETIN* of September 17, 1951, p. 464.

³ TIAS 2490; for text, see *BULLETIN* of August 27, 1951, p. 349.

these islands, the United States Government will consult at once with the Government of Japan and intends to take the necessary measures for the defense of these islands, and to do its utmost to secure the welfare of the islanders.

AGREEMENT UNDER ARTICLE VI OF THE TREATY OF MUTUAL COOPERATION AND SECURITY BETWEEN THE UNITED STATES OF AMERICA AND JAPAN, REGARDING FACILITIES AND AREAS AND THE STATUS OF UNITED STATES ARMED FORCES IN JAPAN

The United States of America and Japan, pursuant to Article VI of the Treaty of Mutual Cooperation and Security between the United States of America and Japan signed at Washington on January 19, 1960, have entered into this Agreement in terms as set forth below:

ARTICLE I

In this Agreement the expression—

(a) "members of the United States armed forces" means the personnel on active duty belonging to the land, sea or air armed services of the United States of America when in the territory of Japan.

(b) "civilian component" means the civilian persons of United States nationality who are in the employ of, serving with, or accompanying the United States armed forces in Japan, but excludes persons who are ordinarily resident in Japan or who are mentioned in paragraph 1 of Article XIV. For the purposes of this Agreement only, dual nationals, United States and Japanese, who are brought to Japan by the United States, shall be considered as United States nationals.

(c) "dependents" means

- (1) Spouse, and children under 21;
- (2) Parents, and children over 21, if dependent for over half their support upon a member of the armed forces or civilian component.

ARTICLE II

1. (a) The United States is granted, under Article VI of the Treaty of Mutual Cooperation and Security, the use of facilities and areas in Japan. Agreements as to specific facilities and areas shall be concluded by the two Governments through the Joint

Committee provided for in Article XXV of this Agreement. "Facilities and areas" include existing furnishings, equipment and fixtures necessary to the operation of such facilities and areas.

(b) The facilities and areas of which the United States has the use at the time of expiration of the Administrative Agreement under Article III of the Security Treaty between the United States of America and Japan, shall be considered as facilities and areas agreed upon between the two Governments in accordance with subparagraph (a) above.

2. At the request of either Government, the Governments of the United States and Japan shall review such arrangements and may agree that such facilities and areas shall be returned to Japan or that additional facilities and areas may be provided.

3. The facilities and areas used by the United States armed forces shall be returned to Japan whenever they are no longer needed for purposes of this Agreement, and the United States agrees to keep the needs for facilities and areas under continual observation with a view toward such return.

4. (a) When facilities and areas are temporarily not being used by the United States armed forces, the Government of Japan may make, or permit Japanese nationals to make, interim use of such facilities and areas provided that it is agreed between the two Governments through the Joint Committee that such use would not be harmful to the purposes for which the facilities and areas are normally used by the United States armed forces.

(b) With respect to facilities and areas which are to be used by United States armed forces for limited periods of time, the Joint Committee shall specify in the agreements covering such facilities and areas the extent to which the provisions of this Agreement shall apply.

ARTICLE III

1. Within the facilities and areas, the United States may take all the measures necessary for their establishment, operation, safeguarding and control. In order to provide access for the United States armed forces to the facilities and areas for their support, safeguarding and control, the Govern-

ment of Japan shall, at the request of the United States armed forces and upon consultation between the two Governments through the Joint Committee, take necessary measures within the scope of applicable laws and regulations over land, territorial waters and airspace adjacent to, or in the vicinities of the facilities and areas. The United States may also take necessary measures for such purposes upon consultation between the two Governments through the Joint Committee.

2. The United States agrees not to take the measures referred to in paragraph 1 in such a manner as to interfere unnecessarily with navigation, aviation, communication, or land travel to or from or within the territories of Japan. All questions relating to frequencies, power and like matters used by apparatus employed by the United States designed to emit electric radiation shall be settled by arrangement between the appropriate authorities of the two Governments. The Government of Japan shall, within the scope of applicable laws and regulations, take all reasonable measures to avoid or eliminate interference with telecommunications electronics required by the United States armed forces.

3. Operations in the facilities and areas in use by the United States armed forces shall be carried on with due regard for the public safety.

ARTICLE V

1. United States and foreign vessels and aircraft operated by, for, or under the control of the United States for official purposes shall be accorded access to any port or airport of Japan free from toll or landing charges. When cargo or passengers not accorded the exemptions of this Agreement are carried on such vessels and aircraft, notification shall be given to the appropriate Japanese authorities, and their entry into and departure from Japan shall be according to the laws and regulations of Japan.

2. The vessels and aircraft mentioned in paragraph 1, United States Government-owned vehicles including armor, and members of the United States armed forces, the civilian component, and their dependents shall be accorded access to and movement between facilities and areas in use by the United States armed forces and between such facilities and areas and the ports or airports of Japan. Such access to and movement between facilities and areas by United States military vehicles shall be free from toll and other charges.

3. When the vessels mentioned in paragraph 1 enter Japanese ports, appropriate notification shall, under normal conditions, be made to the proper Japanese authorities. Such vessels shall have freedom from compulsory pilotage, but if a pilot is taken pilotage shall be paid for at appropriate rates.

ARTICLE IV

1. The United States is not obliged, when it returns facilities and areas to Japan on the expiration of this Agreement or at an earlier date, to restore the facilities and areas to the condition in which they were at the time they became available to the United States armed forces, or to compensate Japan in lieu of such restoration.

2. Japan is not obliged to make any compensation to the United States for any improvements made in the facilities and areas or for the buildings or structures left thereon on the expiration of this Agreement or the earlier return of the facilities and areas.

3. The foregoing provisions shall not apply to any construction which the Government of the United States may undertake under special arrangements with the Government of Japan.

ARTICLE VI

1. All civil and military air traffic control and communications systems shall be developed in close coordination and shall be integrated to the extent necessary for fulfillment of collective security interests. Procedures, and any subsequent changes thereto, necessary to effect this coordination and integration will be established by arrangement between the appropriate authorities of the two Governments.

2. Lights and other aids to navigation of vessels and aircraft placed or established in the facilities and areas in use by United States armed forces and in territorial waters adjacent thereto or in the vicinity thereof shall conform to the system in use in Japan. The United States and Japanese authorities which have established such navigation aids

shall notify each other of their positions and characteristics and shall give advance notification before making any changes in them or establishing additional navigation aids.

ARTICLE VII

The United States armed forces shall have the use of all public utilities and services belonging to, or controlled or regulated by the Government of Japan, and shall enjoy priorities in such use under conditions no less favorable than those that may be applicable from time to time to the ministries and agencies of the Government of Japan.

ARTICLE VIII

The Government of Japan undertakes to furnish the United States armed forces with the following meteorological services in accordance with arrangements between the appropriate authorities of the two Governments:

(a) Meteorological observations from land and ocean areas including observations from weather ships.

(b) Climatological information including periodic summaries and the historical data of the Meteorological Agency.

(c) Telecommunications service to disseminate meteorological information required for the safe and regular operation of aircraft.

(d) Seismographic data including forecasts of the estimated size of tidal waves resulting from earthquakes and areas that might be affected thereby.

ARTICLE IX

1. The United States may bring into Japan persons who are members of the United States armed forces, the civilian component, and their dependents, subject to the provisions of this Article.

2. Members of the United States armed forces shall be exempt from Japanese passport and visa laws and regulations. Members of the United States armed forces, the civilian component, and their dependents shall be exempt from Japanese laws and regulations on the registration and control of aliens, but shall not be considered as acquiring any right to permanent residence or domicile in the territories of Japan.

3. Upon entry into or departure from Ja-

pan members of the United States armed forces shall be in possession of the following documents:

(a) personal identity card showing name, date of birth, rank and number, service, and photograph; and

(b) individual or collective travel order certifying to the status of the individual or group as a member or members of the United States armed forces and to the travel ordered. For purposes of their identification while in Japan, members of the United States armed forces shall be in possession of the foregoing personal identity card which must be presented on request to the appropriate Japanese authorities.

4. Members of the civilian component, their dependents, and the dependents of members of the United States armed forces shall be in possession of appropriate documentation issued by the United States authorities so that their status may be verified by Japanese authorities upon their entry into or departure from Japan, or while in Japan.

5. If the status of any person brought into Japan under paragraph 1 of this article is altered so that he would no longer be entitled to such admission, the United States authorities shall notify the Japanese authorities and shall, if such person be required by the Japanese authorities to leave Japan, assure that transportation from Japan will be provided within a reasonable time at no cost to the Government of Japan.

6. If the Government of Japan has requested the removal from its territory of a member of the United States armed forces or civilian component or has made an expulsion order against an ex-member of the United States armed forces or the civilian component or against a dependent of a member or ex-member, the authorities of the United States shall be responsible for receiving the person within its own territory or otherwise disposing of him outside Japan. This paragraph shall apply only to persons who are not nationals of Japan and have entered Japan as members of the United States armed forces or civilian component or for the purpose of becoming such members, and to the dependents of such persons.

ARTICLE X

1. Japan shall accept as valid, without a

driving test or fee, the driving permit or license or military driving permit issued by the United States to a member of the United States armed forces, the civilian component, and their dependents.

2. Official vehicles of the United States armed forces and the civilian component shall carry distinctive numbered plates or individual markings which will readily identify them.

3. Privately owned vehicles of members of the United States armed forces, the civilian component, and their dependents shall carry Japanese number plates to be acquired under the same conditions as those applicable to Japanese nationals.

ARTICLE XI

1. Save as provided in this Agreement, members of the United States armed forces, the civilian component, and their dependents shall be subject to the laws and regulations administered by the customs authorities of Japan.

2. All materials, supplies and equipment imported by the United States armed forces, the authorized procurement agencies of the United States armed forces, or by the organizations provided for in Article XV, for the official use of the United States armed forces or for the use of the members of the United States armed forces, the civilian component, and their dependents, and materials, supplies and equipment which are to be used exclusively by the United States armed forces or are ultimately to be incorporated into articles or facilities used by such forces, shall be permitted entry into Japan; such entry shall be free from customs duties and other such charges. Appropriate certification shall be made that such materials, supplies and equipment are being imported by the United States armed forces, the authorized procurement agencies of the United States armed forces, or by the organizations provided for in Article XV, or, in the case of materials, supplies and equipment to be used exclusively by the United States armed forces or ultimately to be incorporated into articles or facilities used by such forces, that delivery thereof is to be taken by the United States armed forces for the purposes specified above.

3. Property consigned to and for the per-

sonal use of members of the United States armed forces, the civilian component, and their dependents, shall be subject to customs duties and other such charges, except that no duties or charges shall be paid with respect to:

(a) Furniture and household goods for their private use imported by the members of the United States armed forces or civilian component when they first arrive to serve in Japan or by their dependents when they first arrive for reunion with members of such forces or civilian component, and personal effects for private use brought by the said persons upon entrance.

(b) Vehicles and parts imported by members of the United States armed forces or civilian component for the private use of themselves or their dependents.

(c) Reasonable quantities of clothing and household goods of a type which would ordinarily be purchased in the United States for everyday use for the private use of members of the United States armed forces, civilian component, and their dependents, which are mailed into Japan through United States military post offices.

4. The exemptions granted in paragraphs 2 and 3 shall apply only to cases of importation of goods and shall not be interpreted as refunding customs duties and domestic excises collected by the customs authorities at the time of entry in cases of purchases of goods on which such duties and excises have already been collected.

5. Customs examination shall not be made in the following cases:

(a) Units of the United States armed forces under orders entering or leaving Japan:

(b) Official documents under official seal and official mail in United States military postal channels;

(c) Military cargo shipped on a United States Government bill of lading.

6. Except as such disposal may be authorized by the United States and Japanese authorities in accordance with mutually agreed conditions, goods imported into Japan free of duty shall not be disposed of in Japan to persons not entitled to import such goods free of duty.

7. Goods imported into Japan free from customs duties and other such charges pur-

suant to paragraphs 2 and 3, may be re-exported free from customs duties and other such charges.

8. The United States armed forces, in co-operation with Japanese authorities, shall take such steps as are necessary to prevent abuse of privileges granted to the United States armed forces, members of such forces, the civilian component, and their dependents in accordance with this Article.

9. (a) In order to prevent offenses against laws and regulations administered by the customs authorities of the Government of Japan, the Japanese authorities and the United States armed forces shall assist each other in the conduct of inquiries and the collection of evidence.

(b) The United States armed forces shall render all assistance within their power to ensure that articles liable to seizure by, or on behalf of, the customs authorities of the Government of Japan are handed to those authorities.

(c) The United States armed forces shall render all assistance within their power to ensure the payment of duties, taxes, and penalties payable by members of such forces or of the civilian component, or their dependents.

(d) Vehicles and articles belonging to the United States armed forces seized by the customs authorities of the Government of Japan in connection with an offense against its customs or fiscal laws or regulations shall be handed over to the appropriate authorities of the force concerned.

ARTICLE XII

1. The United States may contract for any supplies or construction work to be furnished or undertaken in Japan for purposes of, or authorized by, this Agreement, without restriction as to choice of supplier or person who does the construction work. Such supplies or construction work may, upon agreement between the appropriate authorities of the two Governments, also be procured through the Government of Japan.

2. Materials, supplies, equipment and services which are required from local sources for the maintenance of the United States armed forces and the procurement of which may have an adverse effect on the economy

of Japan shall be procured in coordination with, and, when desirable, through or with the assistance of, the competent authorities of Japan.

3. Materials, supplies, equipment and services procured for official purposes in Japan by the United States armed forces, or by authorized procurement agencies of the United States armed forces upon appropriate certification shall be exempt from the following Japanese taxes:

- (a) Commodity tax
- (b) Travelling tax
- (c) Gasoline tax
- (d) Electricity and gas tax.

Materials, supplies, equipment and services procured for ultimate use by the United States armed forces shall be exempt from commodity and gasoline taxes upon appropriate certification by the United States armed forces. With respect to any present or future Japanese taxes not specifically referred to in this Article which might be found to constitute a significant and readily identifiable part of the gross purchase price of materials, supplies, equipment and services procured by the United States armed forces, or for ultimate use by such forces, the two Governments will agree upon a procedure for granting such exemption or relief therefrom as is consistent with the purposes of this Article.

4. Local labor requirements of United States armed forces and of the organizations provided for in Article XV shall be satisfied with the assistance of the Japanese authorities.

5. The obligations for the withholding and payment of income tax, local inhabitant tax and social security contributions, and, except as may otherwise be mutually agreed, the conditions of employment and work, such as those relating to wages and supplementary payments, the conditions for the protection of workers, and the rights of workers concerning labor relations shall be those laid down by the legislation of Japan.

6. Should the United States armed forces or as appropriate an organization provided for in Article XV dismiss a worker and a decision of a court or a Labor Relations Commission of Japan to the effect that the contract of employment has not terminated

become final, the following procedures shall apply:

(a) The United States armed forces or the said organization shall be informed by the Government of Japan of the decision of the court or Commission;

(b) Should the United States armed forces or the said organization not desire to return the worker to duty, they shall so notify the Government of Japan within seven days after being informed by the latter of the decision of the court or Commission, and may temporarily withhold the worker from duty;

(c) Upon such notification, the Government of Japan and the United States armed forces or the said organization shall consult together without delay with a view to finding a practical solution of the case;

(d) Should such a solution not be reached within a period of thirty days from the date of commencement of the consultations under (c) above, the worker will not be entitled to return to duty. In such case, the Government of the United States shall pay to the Government of Japan an amount equal to the cost of employment of the worker for a period of time to be agreed between the two Governments.

7. Members of the civilian component shall not be subject to Japanese laws or regulations with respect to terms and conditions of employment.

8. Neither members of the United States armed forces, civilian component, nor their dependents, shall by reason of this Article enjoy any exemption from taxes or similar charges relating to personal purchases of goods and services in Japan chargeable under Japanese legislation.

9. Except as such disposal may be authorized by the United States and Japanese authorities in accordance with mutually agreed conditions, goods purchased in Japan exempt from the taxes referred to in paragraph 3, shall not be disposed of in Japan to persons not entitled to purchase such goods exempt from such tax.

ARTICLE XIII

1. The United States armed forces shall not be subject to taxes or similar charges on property held, used or transferred by such forces in Japan.

2. Members of the United States armed forces, the civilian component, and their dependents shall not be liable to pay any Japanese taxes to the Government of Japan or to any other taxing agency in Japan on income received as a result of their service with or employment by the United States armed forces, or by the organizations provided for in Article XV. The provisions of this Article do not exempt such persons from payment of Japanese taxes on income derived from Japanese sources, nor do they exempt United States citizens who for United States income tax purposes claim Japanese residence from payment of Japanese taxes on income. Periods during which such persons are in Japan solely by reason of being members of the United States armed forces, the civilian component, or their dependents shall not be considered as periods of residence or domicile in Japan for the purpose of Japanese taxation.

3. Members of the United States armed forces, the civilian component, and their dependents shall be exempt from taxation in Japan on the holding, use, transfer *inter se*, or transfer by death of movable property, tangible or intangible, the presence of which in Japan is due solely to the temporary presence of these persons in Japan, provided that such exemption shall not apply to property held for the purpose of investment or the conduct of business in Japan or to any intangible property registered in Japan. There is no obligation under this Article to grant exemption from taxes payable in respect of the use of roads by private vehicles.

ARTICLE XIV

1. Persons, including corporations organized under the laws of the United States, and their employees who are ordinarily resident in the United States and whose presence in Japan is solely for the purpose of executing contracts with the United States for the benefit of the United States armed forces, and who are designated by the Government of the United States in accordance with the provisions of paragraph 2 below, shall, except as provided in this Article, be subject to the laws and regulations of Japan.

2. The designation referred to in paragraph 1 above shall be made upon consultation with the Government of Japan and

shall be restricted to cases where open competitive bidding is not practicable due to security considerations, to the technical qualifications of the contractors involved, or to the unavailability of materials or services required by United States standards, or to limitations of United States law.

The designation shall be withdrawn by the Government of the United States:

(a) upon completion of contracts with the United States for the United States armed forces;

(b) upon proof that such persons are engaged in business activities in Japan other than those pertaining to the United States armed forces; or

(c) when such persons are engaged in practices illegal in Japan.

3. Upon certification by appropriate United States authorities as to their identity, such persons and their employees shall be accorded the following benefits of this Agreement:

(a) Rights of accession and movement, as provided for in Article V, paragraph 2;

(b) Entry into Japan in accordance with the provisions of Article IX;

(c) The exemption from customs duties, and other such charges provided for in Article XI, paragraph 3, for members of the United States armed forces, the civilian component, and their dependents;

(d) If authorized by the Government of the United States the right to use the services of the organizations provided for in Article XV;

(e) Those provided for in Article XIX, paragraph 2, for members of the armed forces of the United States, the civilian component, and their dependents;

(f) If authorized by the Government of the United States, the right to use military payment certificates, as provided for in Article XX;

(g) The use of postal facilities provided for in Article XXI;

(h) Exemption from the laws and regulations of Japan with respect to terms and conditions of employment.

4. Such persons and their employees shall be so described in their passports and their arrival, departure and their residence while

in Japan shall from time to time be notified by the United States armed forces to the Japanese authorities.

5. Upon certification by an authorized officer of the United States armed forces, depreciable assets except houses, held, used, or transferred, by such persons and their employees exclusively for the execution of contracts referred to in paragraph 1 shall not be subject to taxes or similar charges of Japan.

6. Upon certification by an authorized officer of the United States armed forces, such persons and their employees shall be exempt from taxation in Japan on the holding, use, transfer by death, or transfer to persons or agencies entitled to tax exemption under this Agreement, of movable property, tangible or intangible, the presence of which in Japan is due solely to the temporary presence of these persons in Japan, provided that such exemption shall not apply to property held for the purpose of investment or the conduct of other business in Japan or to any intangible property registered in Japan. There is no obligation under this Article to grant exemption from taxes payable in respect of the use of roads by private vehicles.

7. The persons and their employees referred to in paragraph 1 shall not be liable to pay income or corporation taxes to the Government of Japan or to any other taxing agency in Japan on any income derived under a contract made in the United States with the Government of the United States in connection with the construction, maintenance or operation of any of the facilities or areas covered by this Agreement. The provisions of this paragraph do not exempt such persons from payment of income or corporation taxes on income derived from Japanese sources, nor do they exempt such persons and their employees who, for United States income tax purposes, claim Japanese residence, from payment of Japanese taxes on income. Periods during which such persons are in Japan solely in connection with the execution of a contract with the Government of the United States shall not be considered periods of residence or domicile in Japan for the purposes of such taxation.

8. Japanese authorities shall have the primary right to exercise jurisdiction over the persons and their employees referred to in

paragraph 1 of this Article in relation to offenses committed in Japan and punishable by the law of Japan. In those cases in which the Japanese authorities decide not to exercise such jurisdiction they shall notify the military authorities of the United States as soon as possible. Upon such notification the military authorities of the United States shall have the right to exercise such jurisdiction over the persons referred to as is conferred on them by the law of the United States.

ARTICLE XV

1. (a) Navy exchanges, post exchanges, messes, social clubs, theaters, newspapers and other non-appropriated fund organizations authorized and regulated by the United States military authorities may be established in the facilities and areas in use by the United States armed forces for the use of members of such forces, the civilian component, and their dependents. Except as otherwise provided in this Agreement, such organizations shall not be subject to Japanese regulations, license, fees, taxes or similar controls.

(b) When a newspaper authorized and regulated by the United States military authorities is sold to the general public, it shall be subject to Japanese regulations, license, fees, taxes or similar controls so far as such circulation is concerned.

2. No Japanese tax shall be imposed on sales of merchandise and services by such organizations, except as provided in paragraph 1(b), but purchases within Japan of merchandise and supplies by such organizations shall be subject to Japanese taxes.

3. Except as such disposal may be authorized by the United States and Japanese authorities in accordance with mutually agreed conditions, goods which are sold by such organizations shall not be disposed of in Japan to persons not authorized to make purchases from such organizations.

4. The organizations referred to in this Article shall provide such information to the Japanese authorities as is required by Japanese tax legislation.

ARTICLE XVI

It is the duty of members of the United States armed forces, the civilian component, and their dependents to respect the law of Japan and to abstain from any activity in

consistent with the spirit of this Agreement, and, in particular, from any political activity in Japan.

ARTICLE XVII

1. Subject to the provisions of this Article,

(a) the military authorities of the United States shall have the right to exercise within Japan all criminal and disciplinary jurisdiction conferred on them by the law of the United States over all persons subject to the military law of the United States;

(b) the authorities of Japan shall have jurisdiction over the members of the United States armed forces, the civilian component, and their dependents with respect to offenses committed within the territory of Japan and punishable by the law of Japan.

2. (a) The military authorities of the United States shall have the right to exercise jurisdiction over persons subject to the military law of the United States with respect to offenses, including offenses relating to its security, punishable by the law of the United States, but not by the law of Japan.

(b) The authorities of Japan shall have the right to exercise exclusive jurisdiction over members of the United States armed forces, the civilian component, and their dependents with respect to offenses, including offenses relating to the security of Japan, punishable by its law but not by the law of the United States.

(c) For the purposes of this paragraph and of paragraph 3 of this Article a security offense against a State shall include

(i) treason against the State;

(ii) sabotage, espionage or violation of any law relating to official secrets of that State, or secrets relating to the national defense of that State.

3. In cases where the right to exercise jurisdiction is concurrent the following rules shall apply:

(a) The military authorities of the United States shall have the primary right to exercise jurisdiction over members of the United States armed forces or the civilian component in relation to

(i) offenses solely against the property or security of the United States, or offenses solely against the person or property of another member of

the United States armed forces or the civilian component or of a dependent;

(ii) offenses arising out of any act or omission done in the performance of official duty.

(b) In the case of any other offense the authorities of Japan shall have the primary right to exercise jurisdiction.

(c) If the State having the primary right decides not to exercise jurisdiction, it shall notify the authorities of the other State as soon as practicable. The authorities of the State having the primary right shall give sympathetic consideration to a request from the authorities of the other State for a waiver of its right in cases where that other State considers such waiver to be of particular importance.

4. The foregoing provisions of this Article shall not imply any right for the military authorities of the United States to exercise jurisdiction over persons who are nationals of or ordinarily resident in Japan, unless they are members of the United States armed forces.

5. (a) The military authorities of the United States and the authorities of Japan shall assist each other in the arrest of members of the United States armed forces, the civilian component, or their dependents in the territory of Japan and in handing them over to the authority which is to exercise jurisdiction in accordance with the above provisions.

(b) The authorities of Japan shall notify promptly the military authorities of the United States of the arrest of any member of the United States armed forces, the civilian component, or a dependent.

(c) The custody of an accused member of the United States armed forces or the civilian component over whom Japan is to exercise jurisdiction shall, if he is in the hands of the United States, remain with the United States until he is charged by Japan.

6. (a) The military authorities of the United States and the authorities of Japan shall assist each other in the carrying out of all necessary investigations into offenses, and in the collection and production of evidence, including the seizure and, in proper cases, the handing over of objects connected with an offense. The handing over of such objects

may, however, be made subject to their return within the time specified by the authority delivering them.

(b) The military authorities of the United States and the authorities of Japan shall notify each other of the disposition of all cases in which there are concurrent rights to exercise jurisdiction.

7. (a) A death sentence shall not be carried out in Japan by the military authorities of the United States if the legislation of Japan does not provide for such punishment in a similar case.

(b) The authorities of Japan shall give sympathetic consideration to a request from the military authorities of the United States for assistance in carrying out a sentence of imprisonment pronounced by the military authorities of the United States under the provisions of this Article within the territory of Japan.

8. Where an accused has been tried in accordance with the provisions of this Article either by the military authorities of the United States or the authorities of Japan and has been acquitted, or has been convicted and is serving, or has served, his sentence or has been pardoned, he may not be tried again for the same offense within the territory of Japan by the authorities of the other State. However, nothing in this paragraph shall prevent the military authorities of the United States from trying a member of its armed forces for any violation of rules of discipline arising from an act or omission which constituted an offense for which he was tried by the authorities of Japan.

9. Whenever a member of the United States armed forces, the civilian component or a dependent is prosecuted under the jurisdiction of Japan he shall be entitled:

(a) to a prompt and speedy trial;

(b) to be informed, in advance of trial, of the specific charge or charges made against him;

(c) to be confronted with the witnesses against him;

(d) to have compulsory process for obtaining witnesses in his favor, if they are within the jurisdiction of Japan;

(e) to have legal representation of his own choice for his defense or to have free or assisted legal representation under the con-

ditions prevailing for the time being in Japan;

(f) if he considers it necessary, to have the services of a competent interpreter; and

(g) to communicate with a representative of the Government of the United States and to have such a representative present at his trial.

10. (a) Regularly constituted military units or formations of the United States armed forces shall have the right to police any facilities or areas which they use under Article II of this Agreement. The military police of such forces may take all appropriate measures to ensure the maintenance of order and security within such facilities and areas.

(b) Outside these facilities and areas, such military police shall be employed only subject to arrangements with the authorities of Japan and in liaison with those authorities and in so far as such employment is necessary to maintain discipline and order among the members of the United States armed forces.

11. In the event of hostilities to which the provisions of Article V of the Treaty of Mutual Cooperation and Security apply, either the Government of the United States or the Government of Japan shall have the right, by giving sixty days' notice to the other, to suspend the application of any of the provisions of this Article. If this right is exercised, the Governments of the United States and Japan shall immediately consult with a view to agreeing on suitable provisions to replace the provisions suspended.

12. The provisions of this Article shall not apply to any offenses committed before the entry into force of this Agreement. Such cases shall be governed by the provisions of Article XVII of the Administrative Agreement under Article III of the Security Treaty between the United States of America and Japan, as it existed at the relevant time.

ARTICLE XVIII

1. Each Party waives all its claims against the other Party for damage to any property owned by it and used by its land, sea or air defense services, if such damage—

(a) was caused by a member or an employee of the defense services of the other Party in the performance of his official duties; or

(b) arose from the use of any vehicle, vessel or aircraft owned by the other Party and used by its defense services, provided either that the vehicle, vessel or aircraft causing the damage was being used for official purposes, or that the damage was caused to property being so used.

Claims for maritime salvage by one Party against the other Party shall be waived, provided that the vessel or cargo salved was owned by a Party and being used by its defense services for official purposes.

2. (a) In the case of damage caused or arising as stated in paragraph 1 to other property owned by either Party and located in Japan, the issue of the liability of the other Party shall be determined and the amount of damage shall be assessed, unless the two Governments agree otherwise, by a sole arbitrator selected in accordance with subparagraph (b) of this paragraph. The arbitrator shall also decide any counter-claims arising out of the same incident.

(b) The arbitrator referred to in subparagraph (a) above shall be selected by agreement between the two Governments from amongst the nationals of Japan who hold or have held high judicial office.

(c) Any decision taken by the arbitrator shall be binding and conclusive upon the Parties.

(d) The amount of any compensation awarded by the arbitrator shall be distributed in accordance with the provisions of paragraph 5(e)(i), (ii) and (iii) of this Article.

(e) The compensation of the arbitrator shall be fixed by agreement between the two Governments and shall, together with the necessary expenses incidental to the performance of his duties, be defrayed in equal proportions by them.

(f) Nevertheless, each Party waives its claim in any such case up to the amount of 1,400 United States dollars or 504,000 yen. In the case of considerable variation in the rate of exchange between these currencies the two Governments shall agree on the appropriate adjustments of these amounts.

3. For the purposes of paragraphs 1 and 2 of this Article the expression "owned by a Party" in the case of a vessel includes a vessel on bare boat charter to that Party or requisitioned by it on bare boat terms or seized by

it in prize (except to the extent that the risk of loss or liability is borne by some other person other than such Party).

4. Each Party waives all its claims against the other Party for injury or death suffered by any member of its defense services while such member was engaged in the performance of his official duties.

5. Claims (other than contractual claims and those to which paragraphs 6 or 7 of this Article apply) arising out of acts or omissions of members or employees of the United States armed forces done in the performance of official duty, or out of any other act, omission or occurrence for which the United States armed forces are legally responsible, and causing damage in Japan to third parties, other than the Government of Japan, shall be dealt with by Japan in accordance with the following provisions:

(a) Claims shall be filed, considered and settled or adjudicated in accordance with the laws and regulations of Japan with respect to claims arising from the activities of its Self-Defense Forces.

(b) Japan may settle any such claims, and payment of the amount agreed upon or determined by adjudication shall be made by Japan in yen.

(c) Such payment, whether made pursuant to a settlement or to adjudication of the case by a competent tribunal of Japan, or the final adjudication by such a tribunal denying payment, shall be binding and conclusive upon the Parties.

(d) Every claim paid by Japan shall be communicated to the appropriate United States authorities together with full particulars and a proposed distribution in conformity with subparagraphs (e) (i) and (ii) below. In default of a reply within two months, the proposed distribution shall be regarded as accepted.

(e) The cost incurred in satisfying claims pursuant to the preceding subparagraphs and paragraph 2 of this Article shall be distributed between the Parties as follows:

(i) Where the United States alone is responsible, the amount awarded or adjudged shall be distributed in the proportion of 25 percent chargeable to Japan and 75 percent chargeable to the United States.

(ii) Where the United States and Japan are responsible for the damage, the amount awarded or adjudged shall be distributed equally between them. Where the damage was caused by the defense services of the United States or Japan and it is not possible to attribute it specifically to one or both of those defense services, the amount awarded or adjudged shall be distributed equally between the United States and Japan.

(iii) Every half-year, a statement of the sums paid by Japan in the course of the half-yearly period in respect of every case regarding which the proposed distribution on a percentage basis has been accepted, shall be sent to the appropriate United States authorities, together with a request for reimbursement. Such reimbursement shall be made, in yen, within the shortest possible time.

(f) Members or employees of the United States armed forces, excluding those employees who have only Japanese nationality, shall not be subject to any proceedings for the enforcement of any judgment given against them in Japan in a matter arising from the performance of their official duties.

(g) Except in so far as subparagraph (e) of this paragraph applies to claims covered by paragraph 2 of this Article, the provisions of this paragraph shall not apply to any claim arising out of or in connection with the navigation or operation of a ship or the loading, carriage, or discharge of a cargo, other than claims for death or personal injury to which paragraph 4 of this Article does not apply.

6. Claims against members or employees of the United States armed forces (except employees who are nationals of or ordinarily resident in Japan) arising out of tortious acts or omissions in Japan not done in the performance of official duty shall be dealt with in the following manner:

(a) The authorities of Japan shall consider the claim and assess compensation to the claimant in a fair and just manner, taking into account all the circumstances of the case, including the conduct of the injured person, and shall prepare a report on the matter.

(b) The report shall be delivered to the appropriate United States authorities, who

shall then decide without delay whether they will offer an *ex gratia* payment, and if so, of what amount.

(c) If an offer of *ex gratia* payment is made, and accepted by the claimant in full satisfaction of his claim, the United States authorities shall make the payment themselves and inform the authorities of Japan of their decision and of the sum paid.

(d) Nothing in this paragraph shall affect the jurisdiction of the courts of Japan to entertain an action against a member or an employee of the United States armed forces unless and until there has been payment in full satisfaction of the claim.

7. Claims arising out of the unauthorized use of any vehicle of the United States armed forces shall be dealt with in accordance with paragraph 6 of this Article, except in so far as the United States armed forces are legally responsible.

8. If a dispute arises as to whether a tortious act or omission of a member or an employee of the United States armed forces was done in the performance of official duty or as to whether the use of any vehicle of the United States armed forces was unauthorized, the question shall be submitted to an arbitrator appointed in accordance with paragraph 2(b) of this Article, whose decision on this point shall be final and conclusive.

9. (a) The United States shall not claim immunity from the jurisdiction of the courts of Japan for members or employees of the United States armed forces in respect of the civil jurisdiction of the courts of Japan except to the extent provided in paragraph 5(f) of this Article.

(b) In case any private movable property, excluding that in use by the United States armed forces, which is subject to compulsory execution under Japanese law, is within the facilities and areas in use by the United States armed forces, the United States authorities shall, upon request of Japanese courts, possess and turn over such property to the Japanese authorities.

(c) The authorities of the United States and Japan shall cooperate in the procurement of evidence for a fair hearing and disposal of claims under this Article.

10. Disputes arising out of contracts concerning the procurement of materials, supplies, equipment, services and labor by or for

the United States armed forces, which are not resolved by the parties to the contract concerned, may be submitted to the Joint Committee for conciliation, provided that the provisions of this paragraph shall not prejudice any right which the parties to the contract may have to file a civil suit.

11. The term "defense services" used in this Article is understood to mean for Japan its Self-Defense Forces and for the United States its armed forces.

12. Paragraphs 2 and 5 of this Article shall apply only to claims arising incident to non-combat activities.

13. The provisions of this Article shall not apply to any claims which arose before the entry into force of this Agreement. Such claims shall be dealt with by the provisions of Article XVIII of the Administrative Agreement under Article III of the Security Treaty between the United States of America and Japan.

ARTICLE XIX

1. Members of the United States armed forces, the civilian component, and their dependents, shall be subject to the foreign exchange controls of the Government of Japan.

2. The preceding paragraph shall not be construed to preclude the transmission into or outside of Japan of United States dollars or dollar instruments representing the official funds of the United States or realized as a result of service or employment in connection with this Agreement by members of the United States armed forces and the civilian component, or realized by such persons and their dependents from sources outside of Japan.

3. The United States authorities shall take suitable measures to preclude the abuse of the privileges stipulated in the preceding paragraph or circumvention of the Japanese foreign exchange controls.

ARTICLE XX

1. (a) United States military payment certificates denominated in dollars may be used by persons authorized by the United States for internal transactions within the facilities and areas in use by the United States armed forces. The Government of the United States will take appropriate action to insure that authorized personnel are pro-

hibited from engaging in transactions involving military payment certificates except as authorized by United States regulations. The Government of Japan will take necessary action to prohibit unauthorized persons from engaging in transactions involving military payment certificates and with the aid of United States authorities will undertake to apprehend and punish any person or persons under its jurisdiction involved in the counterfeiting or uttering of counterfeit military payment certificates.

(b) It is agreed that the United States authorities will apprehend and punish members of the United States armed forces, the civilian component, or their dependents, who tender military payment certificates to unauthorized persons and that no obligation will be due to such unauthorized persons or to the Government of Japan or its agencies from the United States or any of its agencies as a result of any unauthorized use of military payment certificates within Japan.

2. In order to exercise control of military payment certificates the United States may designate certain American financial institutions to maintain and operate, under United States supervision, facilities for the use of persons authorized by the United States to use military payment certificates. Institutions authorized to maintain military banking facilities will establish and maintain such facilities physically separated from their Japanese commercial banking business, with personnel whose sole duty is to maintain and operate such facilities. Such facilities shall be permitted to maintain United States currency bank accounts and to perform all financial transactions in connection therewith including receipt and remission of funds to the extent provided by Article XIX, paragraph 2, of this Agreement.

ARTICLE XXI

The United States may establish and operate, within the facilities and areas in use by the United States armed forces, United States military post offices for the use of members of the United States armed forces, the civilian component, and their dependents, for the transmission of mail between United States military post offices in Japan and between such military post offices and other United States post offices.

ARTICLE XXII

The United States may enroll and train eligible United States citizens residing in Japan, who apply for such enrollment, in the reserve organizations of the armed forces of the United States.

ARTICLE XXIII

The United States and Japan will cooperate in taking such steps as may from time to time be necessary to ensure the security of the United States armed forces, the members thereof, the civilian component, their dependents, and their property. The Government of Japan agrees to seek such legislation and to take such other action as may be necessary to ensure the adequate security and protection within its territory of installations, equipment, property, records and official information of the United States, and for the punishment of offenders under the applicable laws of Japan.

ARTICLE XXIV

1. It is agreed that the United States will bear for the duration of this Agreement without cost to Japan all expenditures incident to the maintenance of the United States armed forces in Japan except those to be borne by Japan as provided in paragraph 2.

2. It is agreed that Japan will furnish for the duration of this Agreement without cost to the United States and make compensation where appropriate to the owners and suppliers thereof of all facilities and areas and rights of way, including facilities and areas jointly used such as those at airfields and ports, as provided in Articles II and III.

3. It is agreed that arrangements will be effected between the Governments of the United States and Japan for accounting applicable to financial transactions arising out of this Agreement.

ARTICLE XXV

1. A Joint Committee shall be established as the means for consultation between the Government of the United States and the Government of Japan on all matters requiring mutual consultation regarding the implementation of this Agreement. In particular, the Joint Committee shall serve as the means for consultation in determining the facilities and areas in Japan which are required for

the use of the United States in carrying out the purposes of the Treaty of Mutual Cooperation and Security.

2. The Joint Committee shall be composed of a representative of the Government of the United States and a representative of the Government of Japan, each of whom shall have one or more deputies and a staff. The Joint Committee shall determine its own procedures, and arrange for such auxiliary organs and administrative services as may be required. The Joint Committee shall be so organized that it may meet immediately at any time at the request of the representative of either the Government of the United States or the Government of Japan.

3. If the Joint Committee is unable to resolve any matter, it shall refer that matter to the respective Governments for further consideration through appropriate channels.

ARTICLE XXVI

1. This Agreement shall be approved by the United States and Japan in accordance with their legal procedures, and notes indicating such approval shall be exchanged.

2. After the procedure set forth in the preceding paragraph has been followed, this Agreement will enter into force on the date of coming into force of the Treaty of Mutual Cooperation and Security, at which time the Administrative Agreement under Article III of the Security Treaty between the United States of America and Japan, signed at Tokyo on February 28, 1952, as amended, shall expire.

"True culture consists of a broad grasp of the world in which we live, and of the people who inhabit it, their history, their hopes and aspirations, their joys and sorrows. It includes a broad understanding of the current scene, industrial, political, social. It is by nature interpretive, questioning, analytical. In short, it is the true basis of wisdom. * * *

"What is a cultured gentleman? What is he at his best? He is a man who aspires to wisdom, because of his keen interest and broad knowledge of all that conditions his relations with his fellows, and their relations with one another; who goes beyond this and strives to add to the sum total of human intellectual accomplishments, and to establish thinking on a higher and broader plane. He is a man who is modest and kind to the humble and the unfortunate. Above all, he is a man with a mission to minister to the welfare of the society in which he lives, and who takes a just pride in his guidance and his leadership. He is a member of that modern select group upon which the continuance and further development of our free way of life intimately depends."

—Vannevar Bush, Chairman of the Corporation, Massachusetts Institute of Technology, in an address delivered in New Jersey on December 6, 1958.

3. The Government of each Party to this Agreement undertakes to seek from its legislature necessary budgetary and legislative action with respect to provisions of this Agreement which require such action for their execution.

ARTICLE XXVII

Either Government may at any time request the revision of any Article of this Agreement, in which case the two Governments shall enter into negotiation through appropriate channels.

ARTICLE XXVIII

This Agreement, and agreed revisions thereof, shall remain in force while the Treaty of Mutual Cooperation and Security remains in force unless earlier terminated by agreement between the two Governments.

IN WITNESS WHEREOF the undersigned Plenipotentiaries have signed this Agreement.

DONE at Washington, in duplicate, in the English and Japanese languages, both texts equally authentic, this 19th day of January, 1960.

For the United States of America:

CHRISTIAN A. HERTER
DOUGLAS MACARTHUR 2ND
J. GRAHAM PARSONS

For Japan:

NOBUSUKE KISHI
AIICHIRO FUJIYAMA
MITSUJIRO ISHII
TADASHI ADACHI
KOICHIRO ASAKAI

The Month in Review

INTERNATIONAL

Berlin Crisis

March 2—Reliable sources report that the U.S., France and Great Britain will not begin high altitude flights into West Berlin. There is a Soviet 10,000 foot limit on Allied planes flying into Berlin. Sources also report that the U.S.S.R. has intimated that the 10,000 foot limit could only be re-negotiated if East Germany were admitted to the talks.

March 14—The Soviet Union withdraws new passes issued to Allied personnel traveling in East Germany stamped with the words, "German Democratic Republic." Old passes bearing the imprint, "Soviet Zone of Occupation," are re-issued.

March 15—Meeting with West German Chancellor Konrad Adenauer in Washington, U.S. President Dwight Eisenhower restates his support for maintaining West Berlin's freedom.

The U.S., Britain and France cancel retaliatory measures against Soviet missions traveling in West Germany.

March 16—Chancellor Adenauer of West Germany suggests that a plebiscite be held in West Berlin to see whether West Berliners endorse the Soviet proposal for Allied evacuation from that city.

March 20—It is reported that Adenauer, in a television broadcast released yesterday, declared that "no big compromises" were possible on the Berlin situation at a summit meeting.

March 24—The U.S. Department of State releases a World War II agreement defining the Soviet and Western zones of control in Germany. The document, according to the State Department, accords Berlin separate status; it is not to be considered "part of" or "on the territory to be occupied by any of the powers."

Disarmament

March 7—Western representatives meet in

Paris to work on a Western disarmament plan.

March 10—Western delegates agree on a disarmament plan, to be presented to the U.S.S.R.

March 14—British delegate Sir Michael Wright suggests air sampling tests of radioactivity for policing the proposed nuclear test ban.

The West's disarmament plan is presented to the U.S.S.R. at Geneva prior to the opening of the conference. The three-part plan calls first for the establishment of an International Disarmament Organization that would be informed of all space launchings and would supervise storing of agreed quantities of conventional arms; reduction of American and Russian forces would follow. Second stage agreements would also be studied. In the second stage, each agreement would be executed as it is reached. Space vehicles would be forbidden to carry nuclear weapons and launching site inspection would be implemented. Fissionable war material manufacture would stop. In the third stage, controlled progressive reduction of manpower and firing strength would continue until only internal security levels remained.

March 15—The 10-nation disarmament conference opens.

March 19—President Eisenhower is reported to have informed Soviet Premier Nikita Khrushchev that the U.S. does not intend to share nuclear weapons with its allies.

The U.S.S.R. suggests that a pledge be signed promising a ban on all military tests including nuclear tests for an agreed on number of years.

The U.S. State Department promises careful study of the latest Russian proposal.

March 21—The U.S.S.R. offers to accept a nuclear test ban first in the schedule of staged disarmament.

March 24—The Russian delegation says

that free air inspection will not be permitted in the U.S.S.R. until disarmament is completed.

March 25—The U.S.S.R. refuses to begin detailed negotiations on an international disarmament organization.

U.S. Secretary of State Christian Herter indicates that the U.S. will insist on an inspection and control system linked to a test ban.

March 26—British Prime Minister Harold Macmillan arrives in Washington to talk to President Eisenhower about a nuclear test ban.

March 28—The West offers an outline for a veto-free international disarmament organization, which would be responsible for inspection.

March 29—The U.S. and Britain agree on an underground nuclear test moratorium provided the U.S.S.R. permits an international inspection and control system. If the U.S.S.R. signs a treaty providing for inspection and control and agrees to participate in research on underground test detection, Britain and the U.S. will unilaterally extend their test bans.

March 30—Khrushchev notes that the Soviet Union and the West have no common ground for an agreement on disarmament.

March 31—The Soviet delegation terms the Western suggestion for a nuclear test moratorium "encouraging."

North Atlantic Treaty Organization

March 2—"Tacit agreement" is reached by the U.S., Britain and France to integrate a battalion each into a task force armed with atomic weapons, General Lauris Norstad reveals.

March 5—Belgium, the Netherlands and West Germany agree to produce at least 570 American-designed Lockheed Starfighters in Belgian, Dutch and German factories; products of the joint weapons plan will be divided among them.

March 10—A U.S. congressional committee is assured by Nato General Lauris Norstad that foreign troops in the new Nato atomic brigade will not be outfitted with U.S. atomic warheads.

The United Nations

March 3—Secretary General Dag Hammarskjold says there has been "a thaw of tem-

perature on the short-term level" in the Middle East.

March 5—A small island off the coast of Tanganyika announces that it became independent of Tanganyika after a unanimous vote "on the stroke of midnight, December 31, 1959." Tanganyika is administered by British authorities under the U.N.

March 16—Anti-Semitic outbreaks in recent months are condemned by the U.N. Commission on Human Rights.

March 25—Twenty-eight members of the Afro-Asian bloc formally ask the Security Council to meet to discuss violence in South Africa. (See also *British Commonwealth, South Africa*.)

March 31—Ecuador asks the Security Council to request that the Secretary General try to persuade the Union of South Africa to comply with U.N. rulings against racial discrimination.

West Europe

March 3—The European Economic Community's Administrative Commission urges that the 6-nation Common Market be made operative as soon as possible.

March 15—President Eisenhower and German Chancellor Konrad Adenauer issue a joint communiqué describing the Common Market Executive Commission's recent tariff proposals as "a major contribution to a general lowering of world trade barriers." According to the proposal, internal tariff reduction scheduled for July will be 20 per cent instead of 10 per cent. The tariff against all outsiders will move at that time toward a common tariff.

March 22—A regulation of the Common Market commission is published providing that if any goods are received into one of the common market countries at a "dumping" price, the goods may be returned to the country of export without tolls or formalities.

March 31—The Parliament of the 6-nation Common Market votes to accelerate the establishment of the economic bloc.

AFGHANISTAN

March 2—Soviet Premier Nikita Khrushchev arrives in Afghanistan on his Asian tour.

ARGENTINA

March 13—A state of military rule is im-

posed on Argentina following a bomb explosion in an army officer's home.

March 15—Peronist leaders are arrested in an attempt to repress terrorism. A 1948 law is reinstated, empowering military courts to hear cases involving political crimes. Argentine troops are put in charge of provincial police stations and stand guard at railroad terminals, ports, powerhouses and so forth.

March 25—The Government's Radical Intransigent party calls off a rally in La Plata because of fear of terrorist action.

March 27—National elections are held for 102 seats in the 187-member Chamber of Deputies. The electorate also votes for 3,000 city and provincial officials.

March 28—Almost complete returns give the largest number of votes to the People's Radical party, who hold 56 of the newly contested seats. President Arturo Frondizi's Radical Intransigent party is assured 41 seats (it needed only 31 to maintain its majority in the Chamber).

BELGIUM

March 16—The Belgian Parliament approves a bill for a general election in the Congo to be held before independence on June 30.

March 28—West Germany and Belgium sign an agreement allowing West German depots to be established inside Belgium.

Belgian Congo

March 17—It is announced that some 500 Africans have been arrested during inter-tribal conflicts over the weekend.

BOLIVIA

March 19—A national police regiment, in a rebel attack on La Paz, is repulsed.

March 21—Three Cabinet ministers resign.

THE BRITISH COMMONWEALTH

Canada

March 7—George R. Pearkes, Defense Minister, reveals that the U.S. will provide Bomarc anti-aircraft missiles and accompanying equipment without cost. The U.S. is to pay \$72 million for the missiles and launching equipment; Canada will provide the money—some \$15 million—for the bases. The Canadian government

abandoned the Arrow jet interceptor program in favor of this arrangement last year.

March 30—A White Paper is presented to Parliament estimating the federal budget deficit at \$405.8 million, a decrease of some 33 per cent compared to last year's deficit.

March 31—Finance Minister Donald Fleming presents a balanced budget to Parliament.

Ceylon

March 19—Almost 3.5 million Ceylonese are expected at the polls in general elections for Parliament; 151 elective seats are at issue.

March 20—Two conflicting Right-wing parties win the general elections: the United National party wins 50 seats; the Great Ceylon Freedom party wins 46 seats; three Left-wing parties win 23 seats.

March 21—Dudley S. Senanayake of the United National party becomes Prime Minister.

Ghana

March 6—Prime Minister Kwame Nkrumah outlines proposals for a constitution establishing a republic for Ghana.

March 14—Nkrumah warns independent African states against "entanglement in military politics with foreign powers."

March 15—Ghana reveals discovery of a plot in which it is claimed that "Togoland would be used as a base for an armed attack upon Ghana."

Great Britain

March 1—The House of Commons endorses the government's defense policy of including West Germany as a strong partner in the Western alliance.

An Icelandic gunboat fires on a British fishing trawler.

March 9—It is announced that the wedding of Princess Margaret and Antony Armstrong-Jones will take place in Westminster Abbey May 6.

March 10—Prime Minister Harold Macmillan reveals plans for a major reorganization of the nation's railroad system.

March 22—It is announced that Queen Elizabeth's second son will be named Prince Andrew Albert Christian Edward.

India

March 7—It is announced in New Delhi that a Russian offer to build a nuclear power station in India has been accepted by the Indian government.

March 10—Prime Minister Jawaharlal Nehru presents a White Paper in Parliament including a letter he wrote Chinese Premier Chou En-Lai suggesting an April 20 heads of state meeting in New Delhi.

March 29—U.A.R. President Gamal Abdel Nasser begins a 13-day official visit.

Malaya

March 11—An official statement reveals that more than 11,000 persons have died in the 12-year struggle against Communist rebels.

South Africa

March 19—British Prime Minister Harold Macmillan says that South Africa seems to be "making a grave mistake in her handling of racial questions."

March 21—Unofficial reports from Johannesburg indicate that about 50 persons were killed when police fired on rioting Africans demonstrating at Sharpeville against the requirement that Africans must carry passes at all times.

March 22—The U.S. State Department expresses regret at the police action against South African rioters.

Rioting continues.

March 23—The South African government expresses concern at the U.S. comment on police action against African rioters.

March 24—The government forbids public meetings in heavily populated areas until June 30.

March 26—The requirement that all Africans must carry passes at all times is suspended.

March 29—As rioting is resumed, it is reported that 15 Africans have been killed.

March 30—Prime Minister Hendrik F. Verwoerd's government arrests 234 political opponents; a state of emergency is subsequently declared in much of the country.

The South African delegate leaves the Security Council discussion table when South African riots are debated.

March 31—It is reported from Johannesburg that three hundred persons have been arrested under emergency regulations.

BRITISH EMPIRE, THE

Cyprus

March 23—Negotiations on British bases continue in Nicosia.

Guiana

March 31—The British government announces that if a new constitution is accepted for the Crown Colony, it will go into effect in August, 1961. Two years after the first general election full independence will be considered, according to a Colonial Office communiqué.

Kenya

March 4—The Speaker of the Legislative Council, Sir Ferdinand Cavendish-Bentinck, resigns after serving on the council for 28 years.

March 8—Sir Ferdinand Cavendish-Bentinck criticizes British government policy.

March 25—African legislators accept three instead of four ministries in the new Kenya government.

March 27—The Kenya African National Union, a new party, names James Gichuru as chairman.

March 31—Three Africans are named to the cabinet of the caretaker government.

BULGARIA

March 7—United States Minister to Bulgaria Edward Page, Jr., arrives to take up residence, terminating a 9-year break in diplomatic ties.

CHINA (Nationalist)

March 11—The National Assembly votes to suspend the 2-term limit on the presidency and vice-presidency.

March 21—Generalissimo Chiang Kai-shek is re-elected for his third presidential term by the National Assembly.

March 22—Chen Cheng is re-elected vice-president for his second term.

CHINA (The People's Republic)

March 1—In talks with Indonesian President Sukarno, Soviet Premier Khrushchev declares that Red Chinese industrialization has required "too great a cost."

March 17—A Roman Catholic Bishop, Ignatius Kung Pin-mei, and twelve other Catholics are sentenced to imprisonment.

March 18—U.S. Bishop James Edward

Walsh is convicted of instigating plots against the Red Chinese regime.

March 22—The U.S. protests the Communist Chinese imprisonment of Bishop Walsh.

March 30—The National People's Congress opens with 1,063 Deputies in attendance. Deputy Premier Li Fu-chun announces an economic program that will increase agricultural and industrial production 23 per cent in 1960 (the rate of growth in 1959 was 31.1 per cent).

CHILE

March 1—Visiting in Chile, U.S. President Dwight Eisenhower declares that the U.S. does not support dictatorships.

March 22—Chile and Argentina agree to present frontier disputes in the Alto Palena area to the International Court of Justice.

COLOMBIA

March 21—Incomplete returns from elections held yesterday for the 152-man House of Representatives (the lower house) show a reversal for the group holding a majority of the Conservative seats. It is reported that the opposing minority Conservative faction has taken control.

Cabinet ministers and departmental governors tender their resignations following the upset in the election.

CUBA

March 4—A French ship docked in Havana explodes. The ship was carrying explosives and other ammunition for the Cuban army.

March 5—Premier Fidel Castro hints without mentioning names that the U.S. is responsible for the explosion in Havana Harbor.

The U.S. State Department issues a strong statement denying any U.S. involvement in the Havana harbor explosion.

March 6—An American photographer, Donald L. Chapman, is released by Cuban authorities, after being cleared of any implication in the harbor explosion.

Sources report that Latin American states do not plan to attend the world conference of underdeveloped nations called by Cuba.

March 8—In a note to the U.S., Cuba rejects U.S. protests against Premier Castro's

hints at U.S. complicity in the harbor explosion. Cuba criticizes U.S. Secretary of State Christian Herter for rudeness toward the Cuban chargé d'affaires in Washington.

March 9—Herter voices hope that difficulties with Cuba can be solved through diplomatic channels, although he cautions that it might become necessary to suspend diplomatic relations with Cuba.

March 10—Havana sources report that Cuba spent \$120 million of its foreign exchange for military supplies during 1959.

March 11—It is reported that yesterday 3 sugar mills and a railroad under joint American-Cuban ownership were seized by the government.

March 12—It is disclosed that at a March 8 meeting of the dockworkers union, the members did not endorse sabotage charges as the cause of the March 4 harbor explosion.

March 17—Lieutenant Commander Miguel F. G. Pons Goizueta resigns as naval attaché in the U.S. and from other posts to protest Castro's dictatorial methods.

March 19—Cuba accuses Commander Pons of absconding with \$110,000. A U.S. district court judge issues an order restraining Pons from using a bank account that he opened in his name with Cuban government funds.

It is reported that the government has seized the private Biltmore Yacht and Country Club near Havana.

The government orders employers to deduct four per cent from wages of workers who have promised to contribute it to Castro's industrial development program. The deductions will be taken for 5 years.

March 20—U.S. Ambassador Philip W. Bonsal returns to Havana after a 2-month absence. Bonsal was recalled to Washington for consultation.

March 21—A private U.S. plane is shot down 70 miles from Havana. It is believed that the two American pilots were en route to help 4 Cubans escape.

March 24—In a television address last night, it is reported, Labor Minister Augusto Martinez challenges the U.S. right to full jurisdiction over the Guantanomo naval base; Cuban workers should be subject to Cuban law only.

March 25—Cuba's naval attaché in Mexico, Lieutenant Commander Jaime Varela Canosa, announces his resignation. He is seeking refuge in another country.

March 26—The government seizes a fifth television station servicing the Havana-Camaguey area.

March 30—U.S. President Eisenhower says that Cuban-U.S. relations are not improving.

CZECHOSLOVAKIA

March 27—West German Minister of Transportation Hans Seeböhm appeals to Czechoslovakia to allow Sudeten Germans, expelled after World War II, to return to their homes.

DOMINICAN REPUBLIC

March 3—It is disclosed that Generalissimo Rafael Trujillo has rejected the pleas of six Roman Catholic Bishops who urged clemency for prisoners charged with political crimes.

March 5—It is reported that sugar, coffee and cacao exports declined by \$20 million in 1959 compared with 1958 earnings.

March 6—The six Roman Catholic Bishops in the Dominican Republic issue a second pastoral letter urging pardons for political prisoners.

March 8—The Dominican Republic forces *New York Times* correspondent Edward C. Burks to leave. He is charged with denigrating an army officer.

March 16—The U.S. State Department asks the Dominican Republic to return 5 B-26 planes acquired under false pretenses last July.

March 18—The Dominican Republic asserts that the 5 planes have been dismantled for parts and scrap.

The Inter-American Peace Committee announces that the Dominican Republic will not permit investigation of Venezuelan charges of human rights violations.

ETHIOPIA

March 26—The U.S.S.R. and Ethiopia sign an agreement for economic aid under the terms of the economic aid loan recently granted Ethiopia.

FRANCE

March 4—Farm price supports are set up

by the government in an attempt to alleviate farmers' debts.

March 8—It is reported that farm organizations have rejected government-decreed price supports. Parliamentary groups are working to call a special session to meet on the farm problem, a step opposed by the government.

March 12—British Prime Minister Harold Macmillan arrives in France for two days of talks with French President Charles de Gaulle.

March 13—Soviet Premier Nikita Khrushchev's visit to France is postponed until later in the month.

March 16—The National Assembly's steering committee reports 287 parliamentary requests for a special farm session.

March 18—President Charles de Gaulle refuses to call a special session of the National Assembly on the farm problem despite the majority favoring it.

March 21—The Executive Council of the French Community holds its seventh meeting.

March 23—Nikita S. Khrushchev arrives in Paris. Khrushchev declares that a peace treaty with Germany must be reached.

March 24—President de Gaulle and Premier Khrushchev confer privately for over 2 hours. Later, Khrushchev declares that the nuclear arming of Germany may create serious "consequences."

March 27—French and Russian specialists are working on a trade agreement that would allow the Soviet Union to purchase more goods in France than France purchases in the Soviet Union without creating a large Soviet trade deficit.

March 28—Canon Felix Kir, priest and Mayor of Dijon, is not able to greet Premier Khrushchev on the latter's arrival in the city because the Bishop of Dijon has forbidden it.

March 31—Khrushchev ends a visit through the provinces. He returns to Paris to begin talks with de Gaulle on critical issues.

FRANCE OVERSEAS

Algeria

March 3—The French News Agency reports that President de Gaulle has changed his mind on an Algerian settlement. He de-

clares that France will not withdraw from Algeria. The French News Agency also discloses that de Gaulle said the Algerian nationalist government's idea of an independent Algeria actually amounted to "secession."

March 4—The French News Agency reports that de Gaulle has said he opposes both integration and secession for Algeria. He is also reported as having stated his belief that a military victory would be necessary for an Algerian settlement.

March 5—The French News Agency (the only one permitted to send a reporter with de Gaulle on his Algerian trip) reports that de Gaulle predicts an "Algerian Algeria," rather than a "French Algeria," that would continue close ties to France.

March 6—De Gaulle returns to France. It is revealed that he has allayed army fears that he would be lenient toward the Algerian nationalists and negotiate an Algerian settlement with them.

March 14—The Algerian nationalist government declares that de Gaulle's statements have foreclosed peaceful negotiations for an Algerian solution.

March 17—It is reported by rebel sources that a month ago the Algerian Provisional Government offered to send a representative to Paris for peace talks.

March 19—French officials declare that an Algerian Provisional Government offer for peace talks, presented through regular diplomatic channels in good faith, would be seriously considered.

March 22—It is announced that the National Union in Cairo will open an office to recruit volunteers to aid the Algerian nationalists in their fight with France.

Togoland

March 11—Togo Premier Sylvanus E. Olympio discloses plans for a defense alliance among the states of the French Community and Togoland.

FRENCH OVERSEAS COMMUNITY, THE Cameroon

March 1—Felix Moumie, exiled leader of the Union of the Peoples of Cameroon (U.P.C.), announces that he will call off U.P.C. revolt and terroristic activities if the Cameroonian government will accept his peace proposals.

It is announced that the government last week suspended the ban on the U.P.C., which has been charged with carrying on the recent wave of violence.

Ivory Coast

March 5—It is reported that the "King of the Sanwi," Amon Ndoffu III, who set up a separate government over 45,000 people inside the Ivory Coast, has been imprisoned.

Malagasy Republic

March 26—President Philibert Tsiranana and French Premier Michel Debré issue a declaration that agreement has been reached, permitting Malagasy full independence within the French Community (provided the French parliament will so amend the Constitution).

Mali, Federation of

March 31—It is announced that Mali and France have completed negotiations on according full independence to Mali.

Mauritania

March 9—Premier Moktar Ould Daddah asserts that Mauritania will not leave the Community.

March 18—The World Bank announces that yesterday a loan for \$66 million was granted to Mauritania for developing high grade iron ore deposits.

GERMANY, PEOPLE'S REPUBLIC OF (East)

March 11—At a conference in Berlin, an East German refugee farmer is interviewed; he describes Communist terrorism used to force farm collectivization.

March 13—It is reported that East Germany has admitted that farm collectivization is being opposed.

GERMANY, FEDERAL REPUBLIC OF (West)

March 5—Alfred Krupp, head of the Krupp industries, declares that he will manufacture arms again, but is willing to supply certain types of military equipment to Nato.

March 9—The Cabinet approves tax increases to try to cut down an inflationary boom.

March 12—West German Chancellor Konrad Adenauer arrives in the United States on an "informal" visit.

March 14—Adenauer tells the American Council on Germany that his country is democratic and will not harm its Jewish citizens. (See also *International, Berlin Crisis.*)

Adenauer meets with Israeli Premier David Ben-Gurion in New York. This is the first instance of a meeting between West German and Israeli leaders. (See also *Israel.*)

March 17—Adenauer leaves Washington for Los Angeles after 3 days of talks with top U.S. officials.

March 19—The Minister-President of the West German state of Schleswig-Holstein declares that a contingent of U.S. marines under Nato are needed to provide an adequate defense screen for this area.

GUINEA

March 1—Guinea leaves the franc zone. President Sekou Touré announces a new franc for Guinea.

March 3—It is reported that Guinea reached an agreement with the Soviet Union for a \$35 million credit on the day Guinea left the franc zone.

March 5—The East German news agency reports that Guinea has recognized East Germany. West Germany recalls its ambassador to Guinea.

March 9—West Germany threatens to drop diplomatic ties with Guinea if that country gives diplomatic recognition to East Germany.

March 11—It is reported by a West German magazine that Touré has only considered according diplomatic status to the head of the Guinea trade mission to East Germany.

HAITI

March 16—It is announced that a U.S. aid program for a \$4.3 million irrigation project has been halted because Haiti has hired and fired Haitian personnel at work on the project without consulting the U.S.

HONDURAS

March 7—A \$7.5 million credit to Honduras is granted by the International Monetary Fund.

INDONESIA

March 1—Premier Khrushchev ends a 13-day visit to Indonesia.

March 5—Sukarno dissolves parliament.

March 7—Parliament holds its final session.

March 9—An Indonesian Air Force plane attacks the presidential palace; 4 are injured. The pilot of the plane is captured.

March 19—Plans are announced for a reorganized parliament.

March 28—Sukarno names a 261-man, "mutual help" parliament. Sukarno promises elections for parliament in 1962 if conditions permit.

IRAQ

March 27—It is revealed that street fighting between Communists and nationalists occurred last week.

ISRAEL

March 7—Premier Ben-Gurion leaves for a visit to the U.S. (See also *U.A.R.*, March 20.)

U.S. Secretary of State Herter assures 10 Arab diplomatic representatives in the U.S. that Ben-Gurion's trip will not worsen U.S.-Arab bloc relations.

March 8—The convention of American and Canadian immigrants to Israel refuses to adopt a resolution urging Americans and Canadians to come to Israel.

The Finance Ministry eases the burden imposed on American immigrants by lifting the requirement that they must convert all their currency into Israeli money.

March 11—Premier Ben-Gurion tells U.S. Senators in Washington that Israel could help the U.A.R. to progress if peace were established.

March 16—In a debate in the Knesset, Ben-Gurion's recent meeting in New York with West German Chancellor Adenauer receives a favorable vote, 55-3. (See also *West Germany.*)

March 18—Ben-Gurion, in London, affirms his determination to divert the Jordan River water for Israeli irrigation purposes.

ITALY

March 9—Premier Antonio Segni agrees to try to form a new government.

March 21—Segni declares that he is unable to form another government.

Minister of the Budget Fernando Tambroni agrees to try to form a government.

March 25—Christian Democrat Tambroni forms a minority government. Outgoing Premier Segni is given the post of foreign minister.

March 26—President Giovanni Gronchi

swears in the new Cabinet, which still must face a test in the Chamber of Deputies and the Senate.

JAPAN

March 2—Japan and the Soviet Union arrive at a 3-year trade agreement to buy more than \$200 million worth of goods from each other during that period.

March 18—The International Bank for Reconstruction and Development announces that it agreed to a \$40 million loan yesterday for a highway.

JORDAN

March 22—Jordan issues a statement accusing Israeli troops of machinegunning a Jordanian plane flying over Jordan air space.

KOREA, SOUTH

March 15—Presidential elections are held in South Korea.

March 16—Incomplete returns give President Syngman Rhee, who ran for his fourth term unopposed, more than the necessary number of votes for reelection.

March 19—Korea and Japan agree on the exchange of Korean and Japanese prisoners.

LIBERIA

March 3—Soviet Premier Khrushchev, *Tass* reports, has accepted an invitation to visit Liberia.

MOROCCO

March 1—The city of Agadir is ravaged by two earthquakes, a tidal wave and a fire.

March 4—Crown Prince Moulay Hassan announces that King Mohammed V pledges his personal wealth as collateral for a loan to rebuild Agadir. He estimates that the death toll will reach 10,000-12,000.

March 6—U.S. forces evacuate the base at Ben Slimane under the terms of the agreement of December, 1959.

March 25—A general strike is staged in Casablanca to protest the arrests of Leftist National Union of Popular Forces members.

NEPAL

March 11—Premier B. P. Koirala arrives in Peking to meet with Red Chinese leaders.

March 21—China and Nepal sign an agreement regarding their common frontier.

No details are released.

March 25—*Hsinhua*, Communist news agency, reveals the terms of the border pact agreement with Nepal; Nepal and Red China will set up a committee to demarcate their common frontier. The 12.5 miles on either side of the border will be supervised by police and administrative personnel. *Hsinhua* also reports the details of a 3-year economic aid pact, providing Nepal with the equivalent of \$21 million.

PARAGUAY

March 13—Elections to the Chamber of Deputies are held. President Alfredo Stroessner's Colorado party is not challenged for the 60 seats.

SPAIN

March 14—The Export-Import Bank announces the grant of 2 loans totaling \$17.9 million to Spain.

March 17—It is reported that Housing Minister José Luis Arrese Magra has resigned.

March 29—Generalissimo Francisco Franco meets with Don Juan (the Spanish pretender) to discuss the further education of Prince Juan Carlos, Franco's successor and Don Juan's son.

March 30—Franco and Don Juan reach an agreement that Prince Juan Carlos will attend the University of Madrid.

SWITZERLAND

March 6—Geneva citizens vote to give women the ballot in local elections.

TUNISIA

March 2—It is reported in Tunis that during his visit last December, U.S. President Eisenhower suggested that a truce in Algeria might prepare the way for negotiations.

TURKEY

March 7—Turkish editor Admet Emin Yalman begins a 15-month imprisonment for breaking press laws.

U.S.S.R., THE

March 3—The State Planning Committee's official magazine, *Planovoye Khozyaistvo*, contains a warning to consumer industries and services that supplies are accumulating in warehouses; and that they must become aware of consumer demands.

March 5—Soviet Premier Nikita S. Khrushchev

shchev, home from a 24-day trip to Southeast Asia, urges that no change be made in the international climate that might damage the prospects for a fruitful East-West summit talk in May.

Tass, official Soviet news agency, reveals that Khrushchev and Afghanistan leaders issued a joint communiqué in which Khrushchev supported Afghanistan in its border fight with Pakistan.

March 6—An article in *Izvestia* accuses both Israel and the U.A.R. of violating the 1949 armistice, and hopes that both sides will work at improving the situation.

March 8—Khrushchev meets in Moscow with the mayor of San Francisco. He says the U.S.S.R. will not launch an attack against the U.S. Khrushchev also announces his willingness to sign a world treaty outlawing nuclear arms "under proper surveillance."

The U.S. Navy rescues 4 Soviet soldiers afloat in a small craft 49 days.

March 9—Figures released by the Soviet Foreign Trade Minister reveal a jump in foreign trade for 1959: 42 billion rubles against 34.6 billion in 1958.

March 13—Khrushchev's trip to Paris is called off for a week to ten days pending his recovery from an attack of influenza.

March 14—It is announced that Khrushchev will visit France on March 23.

March 26—Khrushchev, in France, visits Bordeaux.

March 29—Speaking in Rheims, France, Khrushchev attacks Germany and accuses it of militaristic ambitions.

Moscow and Peking sign a trade pact for an exchange of goods totaling 7.9 billion rubles.

UNITED ARAB REPUBLIC, THE

March 7—President Gamal Abdel Nasser attacks Jordan; he charges that Jordan works with Britain and the U.S. and against the Arabs.

It is reported that at a secret February 28 Arab League meeting, Jordan rejected a U.A.R. proposal for establishing a "Palestine entity," and claimed the allegiance of its Palestine refugees for King Hussein.

March 18—President Nasser reorganizes the Syrian Cabinet; 7 new members are appointed.

March 20—President Nasser declares that if the U.S. should give more arms aid to Israel, U.A.R.-U.S. relations will deteriorate.

March 22—The Arab League opens a Secretariat building in Cairo, in celebration of its fifteenth anniversary.

March 26—The U.S. and the U.A.R. sign agreements for 3 loans to the U.A.R. totaling £E 16,500,000.

March 27—It is revealed by a Cairo source that the U.A.R. has refused a Soviet offer to guarantee U.A.R. borders against possible attack.

UNITED STATES

Agriculture

March 4—The Department of Agriculture reveals that the total federal investment in price-supported commodities reached \$9,239,499,000 on January 31.

March 5—Ten Democratic midwestern governors end a 2-day meeting at St. Paul, Minnesota, after planning for a long-range "collective action" program on national farm policy.

March 15—The Ten midwestern governors appeal for federal aid to a "desperate agriculture hit by falling income and a price-cost squeeze."

March 16—The Agriculture Department suggests that rates for commercial storing and handling grain should be cut some 19 per cent.

March 28—The Senate passes a bill relaxing penalties for overplanting wheat acreage allotments if marketing quotas are not exceeded. The bill has been passed by the House and now goes to the White House for approval.

March 30—The White House reveals plans to reimburse cranberry growers for losses suffered during the public scare last year when the Department of Health, Education and Welfare announced that part of the crop was contaminated by a weed killer.

Civil Rights

March 10—An effort to cut off Senate debate on civil rights legislation fails; the Southern bloc's civil rights filibuster continues.

March 15—The Civil Rights Commission releases figures showing that since its es-

tabishment in 1957, 436 complaints of violations of voting rights have been received.

March 24—A civil rights bill is passed in the House of Representatives, 311 to 109.

March 30—Senate floor debate on the House civil rights bill begins.

Foreign Policy

March 3—President Eisenhower returns to U.S. soil in Puerto Rico after 11 days in South America. (See also *Cuba*.)

March 7—Secretary of State Christian A. Herter tells the Cuban charge d'affaires that Castro's charge of U.S. involvement in a Havana munitions ship explosion is "baseless, erroneous and misleading."

The President returns to the White House.

March 8—The President discusses his tour with an American national radio and television audience; he notes that "an even firmer partnership [with Latin America] must be our goal."

March 9—The State Department says the President has forbidden high-altitude flights to Berlin for the time being.

March 10—The President confers with Israeli Premier David Ben-Gurion to get his views on summit talks concerning the Middle East.

March 17—The President asks Congress to double the allowance for entry of quota immigrants and to authorize the admission of at least 10,000 refugees annually.

March 28—President Eisenhower and British Prime Minister Harold Macmillan begin pre-summit talks at Camp David, Maryland.

March 30—The Macmillan-Eisenhower talks end.

Government

March 9—Democratic Senator Richard L. Neuberger of Oregon dies at the age of 47 after a cerebral hemorrhage.

March 10—John C. Doerfer resigns as chairman of the Federal Communications Commission at President Eisenhower's request.

March 11—President Eisenhower asks Congress for postal rate increases.

March 23—Edward K. Mills, Jr., is named to replace Doerfer as chairman of the F.C.C.

March 31—The Treasury announces plans for selling a 25-year, 4.5 per cent interest bond.

Military

March 3—Joseph Campbell, Controller General, charges that the Navy has misspent more than \$607 million for poor planes and radar equipment. The Navy disputes the charge.

March 10—Secretary of the Air Force Dudley C. Sharp and Chief of Staff General Thomas D. White testify before the House Armed Services Subcommittee on Manpower Utilization.

March 11—Pioneer V is successfully launched into an elliptical orbit around the sun. The 94.8 pound satellite will travel between the planetary paths of Earth and Venus at an average speed of some 70,000 miles an hour. Pioneer V carries five principal scientific experiments.

March 16—The Atomic Energy Commission reveals plans for an underground nuclear test early in 1961.

March 22—The Air Force reveals a new ruling allowing civilian contractors to bid for "kitchen police" duty.

March 24—The Air Force suggests a sharp cut in expenditures for the Bomarc air missile on grounds of obsolescence.

March 25—The Department of Defense says that the Air Force Midas detection satellite program will be accelerated.

March 27—Critical tests of the Navy's Polaris missile begin.

March 28—The Navy accelerates its Polaris missile program.

Politics

March 7—After New Hampshire Governor Wesley Powell charges that Senator John Kennedy is "soft" on communism, Vice-President Richard Nixon expresses confidence in Kennedy's "unalterable opposition to communism." Powell is chairman of the state campaign committee for Nixon, preparing for the New Hampshire primary election tomorrow.

March 8—In New Hampshire's primary election, Nixon polls 65,077, topping Eisenhower's record 56,464 votes in 1956; Kennedy polls 42,969, double the vote for any previous Democratic contender

in a New Hampshire primary.

March 16—President Eisenhower indicates his personal support for Vice-President Nixon's presidential candidacy.

Democratic National Chairman Paul M. Butler refuses to resign despite the request of Senator Hubert Humphrey, who charges that Butler favors Kennedy.

March 24—Missouri Democrat Stuart Symington reveals that he is a candidate for the presidential nomination.

March 28—Vice-President Nixon pledges a "fighting, hard-hitting campaign on the great issues confronting the nation."

Segregation

March 1—About a thousand Negro students demonstrate in Montgomery, Alabama, against segregation.

March 11—The Fifth Circuit Court of Appeals directs the Dallas, Texas, school board to submit a school desegregation plan by May 1.

March 16—President Eisenhower suggests that Southern whites and Negroes confer locally about recent Negro protests against segregation.

After a protest against segregation, 350 Negro students are arrested in Columbia, South Carolina.

March 18—San Antonio, Texas, lunch counters are integrated; there is no violence.

March 21—Thirty-seven Negroes who were arrested for taking part in a sitdown strike against an all-white public library are fined for disorderly conduct in Memphis, Tennessee.

March 23—Skidmore College students in upstate New York are prevented by police from picketing a Woolworth chain store in a demonstration against segregated lunch facilities in Woolworth's southern stores. Similar sympathy demonstrations are spreading among Northern college students.

March 28—Forty-three Negroes are convicted in Raleigh, North Carolina, for demonstrations during a protest against segregated lunch counter facilities.

March 30—A petition is circulated at the White House Conference on Children and Youth supporting the sitdown demonstrators protesting segregated lunch facilities in the South.

March 31—Southern University students boycott classes and many request withdrawal forms in a demonstration protesting the expulsion of 18 students who participated in a lunch counter sitdown. Southern University is the nation's largest all-Negro college.

Supreme Court

March 7—The Supreme Court votes 6 to 3 that the New York Power Authority has been authorized by Congress to condemn the land of the Tuscarora Indians for the Niagara Power Project.

March 28—The Supreme Court refuses to consider the legality of a Department of Agriculture DDT spraying program.

The conviction of Rudolf Ivanovich Abel as a Russian spy is affirmed 5-4 by the Supreme Court.

URUGUAY

March 1—Benito Nardone is chosen President of the National Council of Government.

March 2—U.S. President Eisenhower arrives in Uruguay. Anti-U.S. student demonstrations are dispersed with tear gas.

VATICAN

March 3—Pope John XXIII announces that he will elevate 7 prelates to the rank of cardinal on March 28.

March 28—Pope John XXIII raises 7 to the cardinalate publicly, including the first Negro, the first Japanese and the first Philippine cardinals to be created. He also raises 3 to the rank of cardinal "in pectore," (in the breast); their names will be announced later.

VENEZUELA

March 5—President Romulo Betancourt signs the Agrarian Reform Act that will distribute land to 700,000 farmers.

March 19—Left-wing elements in Venezuela stage a demonstration to show sympathy for Cuban Premier Castro's revolution.

March 28—Venezuela declares that it has accepted the Cuban invitation to a conference of the underdeveloped countries "in principle"; it asks that the talks, now planned for September, be postponed.

YUGOSLAVIA

March 11—Yugoslavia and India agree to a cultural exchange program.

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